WASBO | CONNECT. GROW. LEAD.
WASHINGTON ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

ACCOUNTS PAYABLE MANUAL

www.wasbo.org

24-25

Table of Contents

Contents

Table of Contents 2
Introduction 3
Accounts Payable 4
Vendor Payments 6
Paperless Invoice Process 14
Imprest Accounts and Petty Cash Funds 16
Charge Cards and Procurement Cards 18
Employee Travel and Expense Claims 20
Expense Claims for Reimbursable Items 21
Daily Travel and Mileage 22
Expense Claims for Meals (while not in overnight travel status) 23
Overnight Travel 24
Travel Advances and Travel Charge Cards 27
Refunds of Revenue 28
From Invoice to Payment 29
Warrant Certification and Approval 31
Warrant Voids, Cancellations, and Duplicate Instruments 36
Sales Tax 39
Use Tax 41
Federal Excise Tax Exemption 42
Public Works and Retainage 43
Internal Controls 46
Independent Contractor versus Employee 48
IRS 1099 Reporting 52
Unclaimed Property 59
The Accounting and Budgeting Connection 62
Inventories and Prepaid Items 65
Year End Expenditure Accruals 66
Resources/References 68

Introduction

The purpose of the WASBO Accounts Payable Manual is to provide a resource for the unique functions of school accounts payable. The manual draws together in one publication all matters associated with accounts payable including the best practices from both large and small school districts. Information has been gathered from RCW, WAC, the Accounting Manual for Public School Districts in the State of Washington, Internal Revenue Service publications, state agencies such as Department of Revenue, Department of Labor and Industries, and many other sources.

The WASBO Accounts Payable Manual should not be considered a step-by-step process and it should not be considered a substitute for legal counsel. Each district must consider their unique circumstances and priorities before adopting the recommendations, tips, and best practices suggested in the manual. Accounts payable professionals are encouraged to review their district policies and procedures related to accounts payable.

Although accounts payable functions closely relate to purchasing functions, this manual does not attempt to duplicate the information provided in the WASBO Purchasing and Warehouse Handbook. The WASBO Purchasing and Warehouse Handbook should be considered a companion to the WASBO Accounts Payable Manual. This publication focuses on the accounts payable functions.

The WASBO Accounts Payable Manual was developed by Denise Wolff and Cory Plager of the WASBO Accounting and Budgeting Committee. Special thanks to Holly Burlingame, CSBA, who was instrumental in compiling and preparing this publication. Thanks also to DeAnn Wagoner for her editing skills. It is the intent of the WASBO Accounting and Budgeting Committee to update this manual periodically as needed.

This publication may be reproduced as needed within your school district. Any additional information or concerns you may have in regard to this manual can be sent in writing to the WASBO office either by mail or e-mail.

By Mail:

WASBO
Attn: The Accounting and Budgeting Committee
284 Lee Street SW, Suite 132
Tumwater, WA 98501

By E-Mail:

admin@wasbo.org

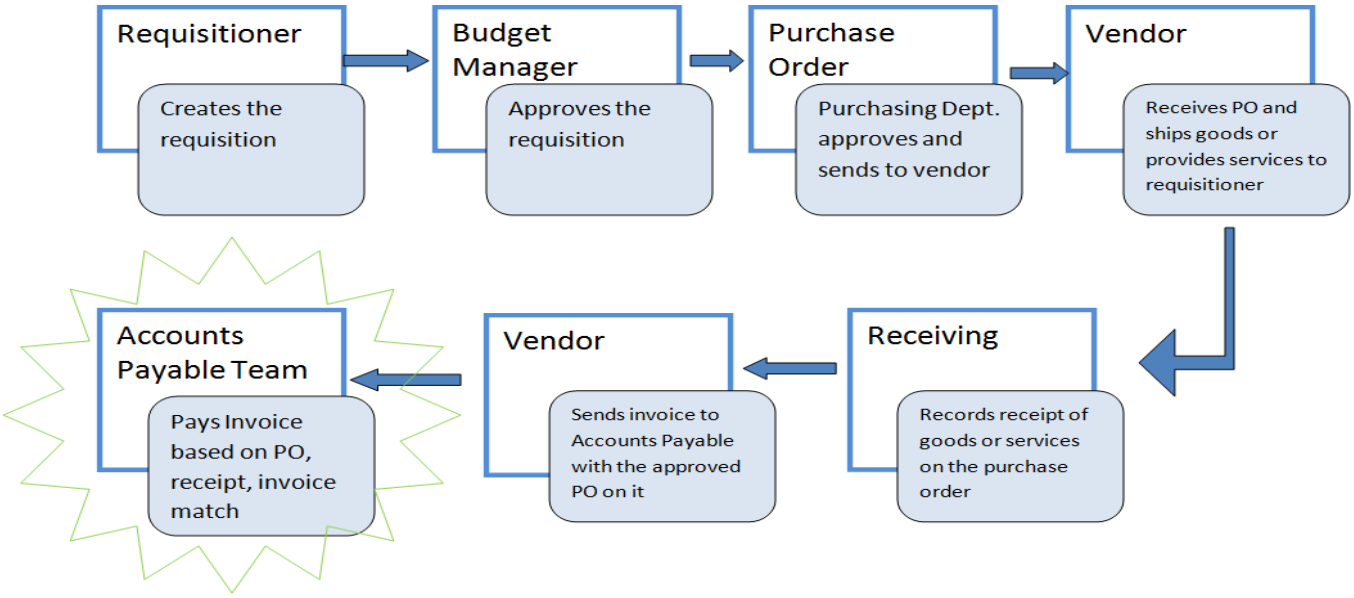
Accounts Payable

Accounts payable functions include the payment of all vendor invoices, employee reimbursements (other than payroll), and imprest account reimbursements in a complete, accurate, and timely manner. In a medium to large district, the accounts payable process may be handled by an entire department of accounts payable technicians. In a small district, this might be only one function of a single individual's many job duties.

In either case, the purpose of the accounts payable function is to ensure that all disbursements of school district funds are done in accordance with:

- ✓ the internal control procedures set by district management
- ✓ the accounting practices of the district
- ✓ the account code structure of the district and the state
- ✓ state law
- ✓ federal requirements
- ✓ good business practice

The traditional purchase to pay cycle can best be illustrated as follows:



The accounts payable function plays a key role in the support of the school district. An Accounts Payable Department has independent, segregated responsibility for paying invoices initiated by district budget managers, invoiced by vendors, and approved by the board of directors. The department provides customer service to both district users and vendors. Budget managers rely on the department to ensure accurate expenditure and encumbrance reporting and assistance with questions. Vendors rely on the Accounts Payable Department to pay their invoices, reconcile their statements, and answer related questions. District administrators and board members rely on accounts payable for accurate external financial reporting, preventing audit issues, and maintaining good relations with vendors and staff.

The accounts payable functions of a school district are closely tied to the purchasing functions. In small school districts, these two functions may be handled by the same individual. Larger districts typically have a

Purchasing Department which is separate from an Accounts Payable Department. In either case, having an understanding of the purchasing requirements is helpful when providing accounts payable services.

Purchasing is responsible for assuring that the district gets the best products and services at the lowest cost. Other important purchasing functions include approving purchase orders, preparing and awarding bids, initiating personal services contracts, monitoring federal purchasing requirements, acting as primary contact with vendors, approving new vendors, maintaining the vendor database, and managing the district's purchasing card program. The WASBO Purchasing and Warehouse Handbook is one good source of information on purchasing functions.

Vendor Payments

A vendor is a legally registered business preapproved by the district's purchasing department. A contractor is also a vendor of the district. Vendors must be registered with the IRS and have a tax identification number (TIN) which can be either an employee identification number (EIN) or social security number (SSN). Additionally, vendors must be registered in the State of Washington and have a Uniformed Business Identifier (UBI) number. UBI numbers are required if retail sales and income are over $12,000 per year. Employees of the district cannot be vendors of the district unless they have a registered business which is substantially different from the services they perform as an employee. There also may be vendors who actually qualify as employees. See the section on Employee vs. Contractor for further details.

New Vendors

The Purchasing Department should be in control of approving and entering new vendors into the accounting system. The Accounts Payable Department, which is responsible for issuing vendor payments, should not also be able to set up new vendors. This is a key internal control over disbursements. If the district is not large enough to have new vendor set up and vendor payment segregated, other compensating controls must be put in place to assure internal control of vendor disbursement.

Each district should develop written procedures for entering new vendors into the data base. A requirement for new vendors and contractors to complete an IRS form W9 or substitute W9 form is a good internal control, especially for districts without segregation between new vendor set up and payment. This form is used to gather key information such as legal vendor name, EIN/SSN number, and UBI number. It is also helpful in gathering required 1099 reporting information.

Each vendor should be issued a vendor number in the district's vendor database. Only one vendor number should exist for a vendor. The vendor number will ensure accuracy of vendor name and address, accumulation of 1099 information, accumulation of vendor payments for bid limit testing, and prevention of invalid vendors. If the district's software system does not use vendor numbers, only vendor names, than the district should develop naming conventions that prevent duplicate vendors. Example: State of Washington Department of . . . is always abbreviated as WA ST DEPT . . .

Tip: Requests for new vendors can be controlled by using the district's purchasing software. When a purchase requisition is issued at a school or department to a new vendor, software should enable the requisitioner to select "new vendor" and provide the vendor name and address in a notes field. This will enable the Purchasing Department to double check for an already existing vendor number or begin the process of setting up a new vendor.

Vendor Invoices

Vendor invoices are the *source document* for accounts payable transactions. In no case should a district create its own accounts payable invoice. Invoices are received from vendors in various formats. Acceptable today are electronic invoices, faxed invoices, and original invoices. In the absence of clearly identified original invoices, the district must have a system to control duplication of invoice payment, such as software system controls over duplicate invoice numbers by vendor name or ID. To prevent duplication, it is important that accounts payable technicians enter vendor invoice numbers exactly as they appear on the invoice including leading zeros and dashes. Only one vendor number or name for any vendor should exist in the vendor database.

Invoices should be mailed directly to the Accounts Payable Department to avoid the possibility of being overlooked. It is recommended that all purchase orders give vendors clear instruction on where to send their invoices. Vendor mailing instructions may also be given on the district's website.

Invoices should be *matched* to the district's vendor database, verification of receipt of goods and services, and purchase orders. The process of matching is often referred to as the *three-way match*.

There are circumstances when the district will pay an invoice without a purchase order. Examples of this are utility costs which are invoiced regardless of an order being placed. These are referred to as *direct payments* in this document. Other exceptions to purchase orders and the three-way match will be discussed in detail later in this section.

Purchase Orders

School districts often use purchase orders to initiate a purchase from a vendor. Purchase orders are used to:

- ✓ Complete an approval process prior to the buy.
- ✓ Communicate the order to the vendor.
- ✓ Establish a contract with a vendor.
- ✓ Encumber the amount of the purchase against a budget.
- ✓ Track receipt of goods and services.
- ✓ Provide information for accounts payable when auditing invoices.
- ✓ Accumulate expenditure/payment information.

Ideally, vendor invoices will reference the district purchase order number. If no purchase order is indicated, the accounts payable technician may have to search the purchase order database using vendor, items purchased, and ship-to locations to find the purchase order.

Verifying Invoice to Purchase Order

Accounts payable technicians should verify that the items invoiced *match* the items ordered on the purchase order. Consider the following when matching the items:

- ✓ Does the vendor information on the invoice match the vendor information on the purchase order?
- ✓ Was the invoice issued prior to the purchase order being approved? All purchase orders should be issued prior to invoices being received.
- ✓ Are the items invoiced the same as the items ordered?
- ✓ If paying on an open purchase order, do the items match the general category of items authorized?
- ✓ Do the amounts invoiced (by total or by item) match the purchase order? District practice may allow a certain percentage variance between the purchase order amount and the invoice amount.
- ✓ Does the invoice have enough detail to verify that the services were performed as contracted? An invoice for services, especially a progress invoice, should include details such as dates of service, description of services, and hours of service.
- ✓ Have all required documents been received (i.e., signed contracts, public works requirements, etc.)?

Verifying Invoice to Receiving Document

District procedures may require the use of electronic verification of receipt through the district's accounting system or paper documentation such as signed packing slips or other receiving forms. In the case of items ordered on a purchase order, the purchase order is the approval to pay. The receiving of items can be verified by any responsible employee such as a warehouse person or office manager. The receiving of contracted services will require verification by a person with knowledge of the services being performed. Consider the following when verifying invoices to receiving documents:

- ✓ Does the invoice match the items received?
- ✓ When were the items received? This will make a difference at year end when determining the fiscal year.
- ✓ Is the order complete and can the purchase order be finalized?

Paperless receiving - It is recommended that districts require on-line receiving. On-line receiving is available in most software and provides increased visibility to receiving and approval verification. It eliminates paper routing and storage of packing lists.

Accounts payable vendor invoice audits should include:

- ✓ Verify that the *three-way match* has been completed: purchase order, receiving, and invoice (see exceptions below).
- ✓ Verify that the invoice is not a duplicate. Use exact vendor invoice number, amount, and date to verify.
- ✓ Total invoice amount is correct.
- ✓ Shipping and handling have been applied correctly per the purchase order.
- ✓ Sales tax rate is correct for the delivery location (see sales tax section for complete details).
- ✓ Use tax is added for out-of-state vendors or when Washington vendors have not charged sales tax as required.
- ✓ Is this a public works invoice requiring retainage to be held (see Public Works section for complete details)?
- ✓ All charges are current and the invoice does not include a brought-forward amount.
- ✓ Purchase order encumbrance is sufficient to cover the current invoice or is within the district's variance tolerance.
- ✓ Verify that the invoice pricing matches any quote or bid pertaining to the purchase order.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Determine the fiscal year for processing (see year-end accrual section for further details).

Exceptions/alternatives to the three-way match

There are several exceptions or alternatives to the standard three-way match (purchase order, receiving, invoice) for paying vendor invoices, these include:

- ✓ Direct payments where no purchase order was issued.
- ✓ Prepayments for services not yet received.
- ✓ Purchasing card and credit card transactions.
- ✓ Imprest and petty cash transactions.

Direct payments are payments made without a formal purchase order being issued. One common use of direct payments is utility services which are invoiced regardless of a purchase order being authorized. Some districts may also allow for purchases below a certain amount to be placed without a purchase order. For direct payments the accounts payable technician will match a vendor invoice to an authorization to pay. The district should have clear policy on when direct payments may be made and the payment authorization requirements.

Prepayments are payments made in advance of receiving the goods or services. Payment in advance for goods or services is generally prohibited by RCW 43.88.160. Some exceptions can be made under state law and district policy. Typical examples of a prepayment are reservations and deposits. A deposit may be required when a district rents an event facility. A registration fee may be required in advance of a student sports competition event. Prepaying for items should be an exception used only in specific circumstances authorized in law and in district policy. For prepayments the Accounts Payable Department will need a *source document* for payment. This source document might be the vendor's facility rental agreement or the sporting event registration form. In no case should the district create its own payment source document. Accounts payable should *match* the source document to the authorization to pay. The authorization to pay may be in the form of an approved purchase order.

Purchasing card, credit card, imprest, and pretty cash transactions are discussed in detail in later sections of this manual.

Prompt Payment

Good business practice requires that all vendors be paid within 30 days of receipt of the invoice. This is contingent, of course, on the district receiving the goods and services. If the district is not able to pay within 30 days, they risk losing credibility with vendors who may also be taxpayers in the district. It is also important for district budget managers to have current expenditure information on their financial reports. There are a few vendors who still provide discounts for paying quickly and the district may want to take advantage of those discounts. There are several factors that may prevent timely payment including lack of receipt verification from the requisitioner or missing the board approval cycle.

Vendors may provide *early settlement discounts* if their invoices are paid prior to the due date. Here is an example of discount terms:

2/10, net 30	Vendor will allow a 2% discount for invoices paid within 10 days of the date of the invoice (not the receipt of the invoice). Day means calendar day including weekends and holidays. Calculate the discount on the total invoice, after tax, and deduct from the invoice payment amount.

Taking an early settlement discount is *not* always economically sound. It is sometimes more economical for a district to hold onto their money and pay within 30 days. The U.S. Treasury has an easy calculator that will determine, based on the current value of funds rate (what your money is worth), whether the discount is advantageous to take. This tool is available at Prompt Payment Discount Calculator. The following is an example of an invoice dated five days ago that offers a 2% discount if paid within the next 5 days (2/10, net 30). The tool confirms that the discount is economically advantages and may be taken.

Discount Calculator Form

Fields marked with an asterisk are required.

Discount the vendor is offering:
Enter as a decimal
For example, for 2.8% enter .028*

.02

Total Days in the Payment Period:*

30

Days Left in the Discount Period:*

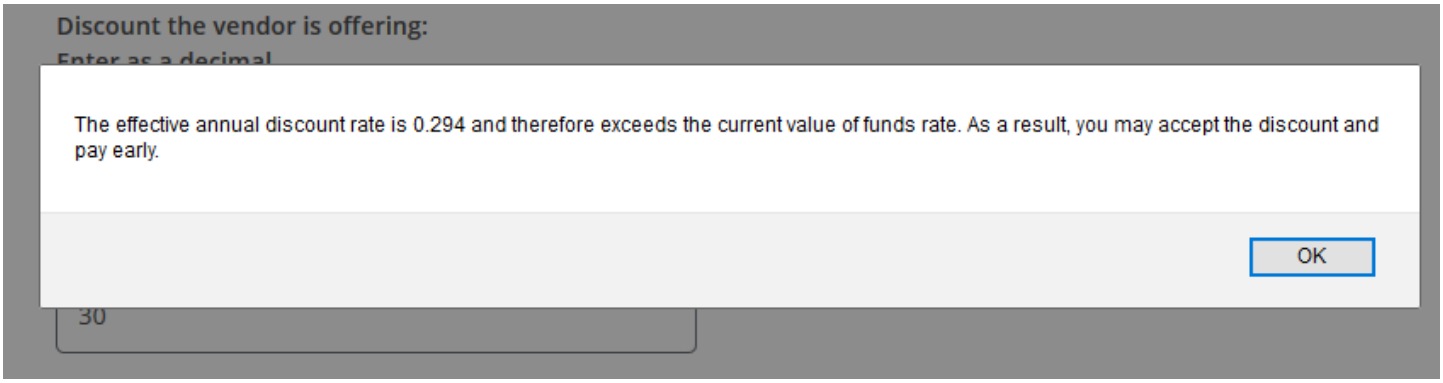
5

Current Value of Funds Rate:
The rate in the box is the current rate.
The current rate if 1%, entered in the box as the decimal, .01 *

.01

CALCULATE CLEAR

After pressing calculate, the system will return the results as shown below.



Late Payments

There are many factors that may prevent a district from paying within 30 days. These include lack of receipt verification, missing the school board approval cycle, invoices not mailed directly to accounts payable, and workload issues. In no case should the vendor be paid late because the items are for the next fiscal year.

If the district pays after the invoice due date, the district may be charged *late fees* by the vendor. *School districts should never pay more than twelve percent annual interest, or one percent monthly, on late fees*. This is the maximum allowed under RCW 39.76.011 (1). If the vendor has invoiced the district for late fees, check the calculation of those late fees based on the number of days paid after the invoice was due (usually 30 days) and the maximum allowable interest of one percent monthly. The U.S. Treasury also has a prompt payment calculator on their website that will quickly calculate the amount owed in late fees. *Be sure to always use one percent interest per Washington State law.*

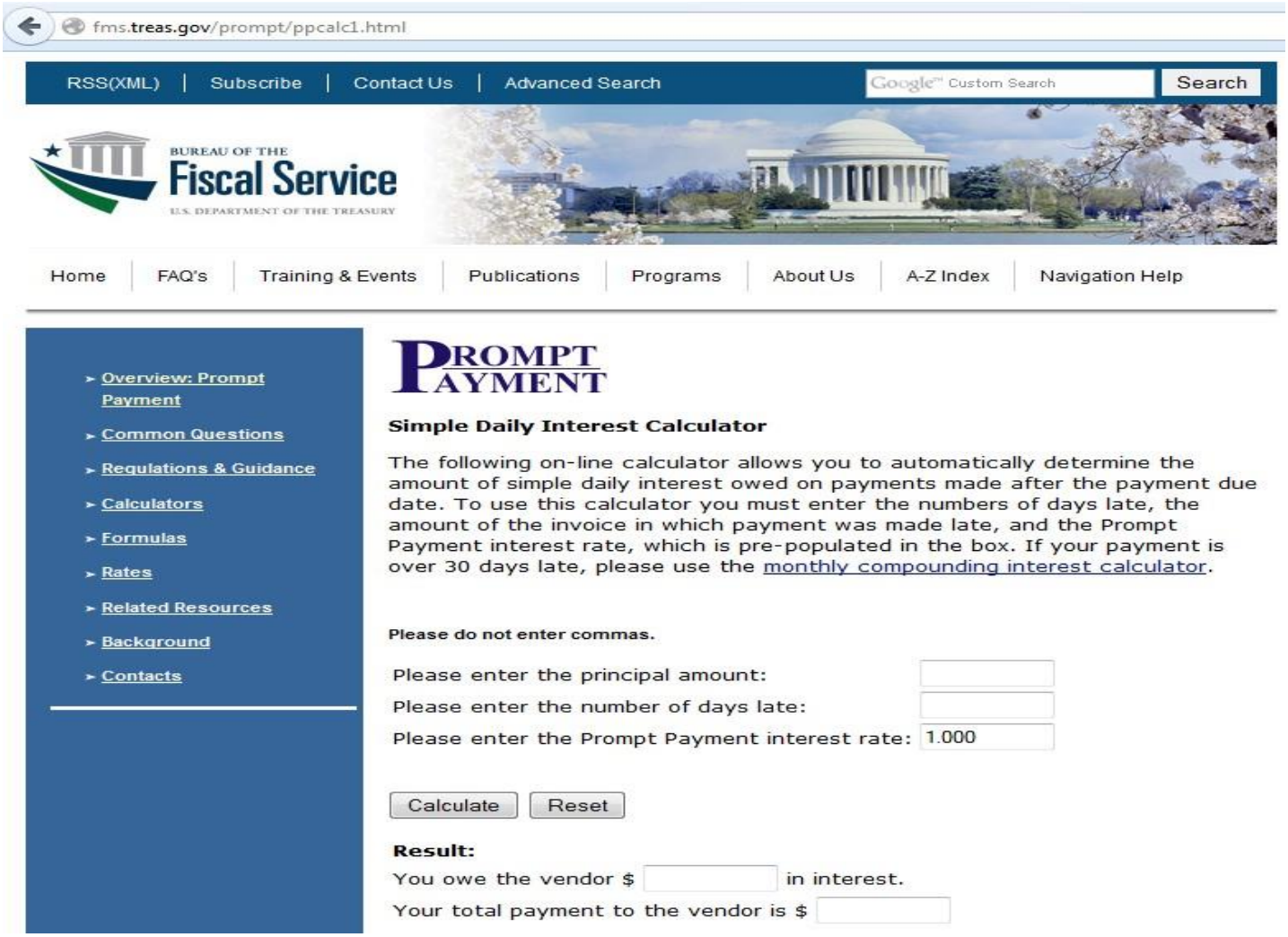
The late fee being charged by the vendor can be double checked using simple interest. The formula is:

Principal x .12 x days/360 = maximum allowed late fee

Days are calculated by taking the total number of days from invoice date to payment date and then subtracting 30 days. Use 30 days if the terms are Net 30.

Many vendors will use compounded interest to calculate their late fees. Compounding will give a slightly different late fee than simple interest. Use the Prompt Payment Calculator below to verify compounding interest.

[Prompt Payment: Monthly Compounding Interest Calculator (treasury.gov)](#)



Freight and Shipping and Handling Charges

A vendor may include freight or shipping and handling charges on their invoice. Freight and shipping and handling charges are usually entered as a separate item prior to sales tax. Accounts Payable should check these charges against the purchase order. Purchases made from bids or quotes often include freight as part of the price. In this case the vendor should not add additional freight to their invoice. Some terms to know:

Shipping and Handling is the vendor's cost of preparing and packing an order and then sending it to the district.

Freight is the transporting of heavy items by commercial delivery companies.

FOB stands for Free on Board or Freight on Board.

FOB Destination means the vendor agrees to pay all shipping costs and the district owns the goods at the point of destination.

FOB Shipping Point means the district owns the products when the product starts on its journey and must pay any deliver charges.

Correcting Vendor Invoices

An invoice may be determined to be incorrect for many reasons. It is not recommended that the district correct vendor invoices, but rather return them to the vendor for correction. This allows the vendor's records to be corrected and saves confusion when the district's payment is received. Invoices requiring vendor correction should be returned promptly (7 days is suggested). Any discounts or late fees should be based on the corrected invoice.

Vendor Credits

There are times when vendors are overpaid or items are returned and a credit is due to the district. Vendors may issue a credit invoice. Accounts payable should enter these credits into the computer system as soon as possible using the expenditure account code from the original invoice. When the district has invoices due to the vendor for more than the credit, the credit can be taken. For example, the district has received a credit for returned items from ABC Office Supply in the amount of $320.00. Accounts payable has entered two other ABC Office Supply invoices in the amount of $125.00 and $75.00. Accounts payable should enter these invoices applying them to the appropriate account codes. ABC Office Supply still owes the district $120.00 and no payment will be processed.

	District Account	
Credit Return CR 1235, 4/14/xx	530.01.27.5610	$(320.00)
Invoice 7755, 4/30/xx	530.97.13.5610	75.00
Invoice 7759, 5/5/xx	530.97.12.5610	125.00
Amount still due to district		$(120.00)

The district should request the vendor pay the credit by check if it is unlikely there will be sufficient invoices to apply the credit against. If the district receives a cash refund for a vendor credit, the cash receipt should be applied to an expenditure account used on the original invoice.

Paperless Invoice Process

Paperless processing and storage of accounts payable invoices can reduce the cost of payments and improve access to disbursement records. In a paperless system, accounts payable technicians work with images rather than hard copies to process payment. Images can be sent to requisitioners for approval and receiving verification; can be viewed as attachments to financial reports; and can substitute for paper documentation for records retention.

In order to qualify to scan and toss original invoices, the district must adhere to the standards for imaging set in statute (WAC 434-633). These standards were developed by the Secretary of State Archives Division with assistance and input from the State Auditor's Office. The Secretary of State Archives Division has provided a self-authorization questionnaire, "Requirements for Destruction of Non-Archival Paper Records after Imaging." It is important when completing the questionnaire that districts understand the requirements in order to get a complete and accurate capture and applied indexing or other organization to those images. The questionnaire can be found on the Secretary of State's website under records management, local governments, Scanning and Tossing at http://www.sos.wa.gov/archives/

In a paperless accounts payable process, vendors are encouraged to submit electronic invoices to the district's Accounts Payable Department. Vendors may either email electronic invoices to districts or provide access to their websites so districts can download electronic invoices. Providing vendors with a generic accounts payable email address will help the district manage email invoice receiving.

Invoices that are mailed by vendors are scanned immediately and the originals destroyed. The district should develop a process to temporarily store original invoices until a good image is verified within the software application.

Here is an example of how this process might be set up:

1. Invoice is received in the mail.
2. Accounts payable technician scans the invoice using a desktop scanner.
3. Image is named and filed on the hard drive or server.
4. Image is routed to the user for payment verification.
5. Receiving is verified electronically.
6. Accounts payable technician views the image on one computer monitor and enters the invoice data (amount due, invoice number, invoice date, etc.) into the fiscal software using a second computer monitor. Some software allows for optical character recognition (OCR) that reads images and partially completes accounts payable data entry.
7. The scanned invoice image is then attached to the accounts payable transaction within the district's software.
8. The invoice image is viewed by drilling down of the transaction amount on fiscal reports.

The specific steps that are eliminated are:

- Managing unmatched invoices by pile (or tickler file).
- Stapling invoices to voucher covers.
- Filing paper vouchers.
- Accessing paper files to retrieve payment data.

The equipment needed for paperless invoice processing includes a high speed scanner, imaging software (often provided with the scanner), and a second monitor for easy viewing.

The scanned images of invoices serve as the *source document* and must be kept for the state required retention period.

The State Auditor's Office will accept scanned invoices during disbursement audits.

For more information contact the Washington State Archives at recordsmanagement@sos.wa.gov.

Imprest Accounts and Petty Cash Funds

Imprest Accounts

An *imprest account* is a bank checking account for handling disbursements whereby a fixed amount of money is set aside for a specific purpose. The amounts expended from the account are restored so that it remains intact.

A district may have imprest checking accounts authorized for school ASB funds, Business Office revolving accounts, and advanced travel funds. The board of directors of the school district must authorize the amount by resolution. A custodian, such as an ASB bookkeeper, must be appointed over each imprest checking account.

Accounts payable is responsible for *replenishing* the imprest checking account. A replenishment request will be submitted by the custodian monthly to the Accounts Payable Department for the total of all checks written since the last replenishment. For example, a high school ASB has been issued a $3,000 imprest checking account. During the month, the custodian of the account, the ASB bookkeeper, has issued checks 1001 through 1005 for a total of $2,100. Before the replenishment, the balance of the checking account is $900. The Accounts Payable Department will issue a warrant for $2,100, restoring the balance of the checking account to $3,000 ($900 + $2,100).

Receipts must be attached for each imprest check written. The district should use a standard replenishment request form.

Replenishment request forms must include the following:

- ✓ Reconciliation of the total of the fund against the current replenishment request and the current checking account balance.
- ✓ Certification from the custodian that the expenditures are just.
- ✓ The expenditure account codes for each check written.
- ✓ Description of each item purchased.
- ✓ Student signatures if ASB.
- ✓ All original itemized receipts attached.

Accounts payable is responsible for auditing the replenishment request and issuing a warrant for the total of the current expenditures. The warrant should be deposited directly into the imprest bank checking account by someone other than the custodian of the account.

The audit process should include the following:

- ✓ Verify all appropriate signatures are included.
- ✓ Verify that all check numbers are sequential and accounted for.
- ✓ Verify that the reconciliation of the total fund, the current replenishment, and the current checking account balances are correct.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that original, itemized receipts are attached for each imprest check issued.
- ✓ Verify that the items purchased have a clear district purpose.
- ✓ Verify that sales tax has been paid, if applicable, and add use tax if it has not.
- ✓ Determine the fiscal year for processing.

Petty Cash Funds

Petty cash funds are cash amounts kept in secured areas used to make minor disbursements whereby a fixed amount of money is set aside for a specific purpose. The amounts expended from the account are restored so that it remains intact. Petty cash funds are similar to imprest accounts in all requirements. The difference is that petty cash funds are cash while imprest accounts are checking accounts. Petty cash funds should not be confused with change funds. *Change funds* are cash amounts used to make change by converting paper bills or coins into smaller denominations. Disbursements cannot be made from change funds.

Districts must assign a specific staff (*custodian*) for maintaining security of the cash, determining use, securing receipts, and submitting for replenishment. *Accounts payable* is responsible for *replenishing* the petty cash account. A replenishment request will be submitted by the custodian, preferably monthly, to the Accounts Payable Department for the total of all expenditures since the last replenishment. For example, a school secretary has been issued a $100 petty cash account. During the month, the secretary has receipts totaling $52.10 and cash in the amount of $47.90. The Accounts Payable Department will issue a warrant for $52.10, restoring the balance of the petty cash account to $100 ($52.10 + $47.90).

Receipts must be attached for each expenditure. The district should use a standard replenishment form.

Replenishment request forms must include the following:

- ✓ Reconciliation of the total of the fund against the current replenishment and the cash balance.
- ✓ Certification from the custodian that the expenditures are just.
- ✓ List the expenditure accounts to charge for each amount spent.
- ✓ Description of each item purchased.
- ✓ Student signatures if ASB.
- ✓ All original itemized receipts attached.

Accounts payable is responsible for auditing the replenishment request and issuing a warrant for the total of the current expenditures. This warrant is issued to the petty cash custodian who will redeem the warrant for cash at a local bank.

The audit process should include the following:

- ✓ Verify all appropriate signatures are included.
- ✓ Verify that the reconciliation of the total fund, the current replenishment, and the current cash balance is correct.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity and object.
- ✓ Verify that original, itemized receipts are attached for each expenditure.
- ✓ Verify that the items purchased have a clear district purpose.
- ✓ Verify that sales tax has been paid, if applicable, and add use tax if it has not.
- ✓ Determine the fiscal year for processing.

Since petty cash funds have a high risk of loss and fraud, the district should establish a surprise cash count program to verify that the unspent cash, less receipts on hand, are intact and secured. Ultimately, the district should consider closing petty cash funds and replacing them with other purchasing means such as procurement cards.

Charge Cards and Procurement Cards

RCW 43.09.2855 authorizes the use of credit cards for school district purchases. Using charge cards and procurement cards is an efficient, cost effective method of purchasing and payment for small dollar transactions, it eliminates a variety of manual transactions, and it reduces accounts payable invoices. The WASBO Purchasing and Warehouse Handbook provides additional information on school purchasing card policy and procedure.

There are several types of charge cards school districts commonly use:

- ✓ Travel Cards
- ✓ Fuel Cards
- ✓ Procurement Cards

There are several ways procurement and credit cards can be issued: to an individual cardholder, to the school or department with no individual cardholder named, or a virtual/ghost account without an actual printed card. Procurement and credit cards issued to employees, with their names imprinted on the card, are the most secure type of card. Merchants are able to verify the individual presenting the card is the actual cardholder and the bank will offer a higher level of fraud protection.

Procurement cards, sometimes referred to as *purchasing cards* or *Pcards*, are substantially different than charge cards. Unlike a personal credit card where the cardholder can pay only a portion of the amount due, school districts must pay the entire balance in full each month. Pcards also offer monthly spending limits, restrictions on merchant types, on-line approval processes and volume rebates. A Pcard is used like a credit card at the supplier location. The supplier receives payment from the Pcard provider within three days. Cardholders maintain receipts and reconcile these receipts with the monthly statement. School board policy should govern the amount and type of such purchases.

Pcards are considered high-risk and require good internal controls. Each district should develop procedures to assure good internal control of Pcard disbursements. The following are recommended internal controls:

- ✓ Cardholder agreements initiated prior to issuing a card.
- ✓ Cardholder training.
- ✓ Written procedures.
- ✓ Monthly spending limits.
- ✓ Approval of all expenditures by the cardholder's supervisor.
- ✓ Restrictions over the type of merchants.
- ✓ Cards issued in the cardholder's name.
- ✓ Cards clearly marked with the school district's logo.
- ✓ Review of *all* purchases and itemized receipts.
- ✓ Segregation of duties between purchases, approval, and reconciliation.
- ✓ Loss of purchase card privileges for misuse by a cardholder.
- ✓ Timely repayment by check or payroll deduction for unauthorized use.
- ✓ Management review of spending activity.

Pcards and credit cards issued to the district, without an individual named, must be kept secured in the same manner as cash. A checkout system must be maintained for any staff member needing to use the card. Strict policy should be in place to ensure the credit cards and the receipts are returned promptly.

Cardholders are responsible for reviewing their charges either on an on-line system or on paper statements at least monthly. More frequent review is highly recommended to detect fraud. Cardholders must provide itemized

receipts for each transaction. These receipts should be reconciled to the monthly statements received during the payment process.

Budget managers must approve all purchases. District procedure may require the approval be done prior to purchase or in total, based on the monthly statement with individual receipts attached. Evidence of review and approval must be either in writing on monthly statements or by an on-line approval system.

Accounts payable responsibilities may vary by district. A Pcard administrator should be named who is responsible for issuing cards, training cardholders, and managing the Pcard system. This is typically someone in the Purchasing Department or Business Office, but could be assigned to an accounts payable person. The audit of purchasing card transactions is an important function that also varies greatly between districts. The audit process in some districts is done by an internal review of transaction backup kept at cardholder locations. In other districts, the Accounts Payable Department is responsible for auditing documentation submitted monthly to the department. Regardless of how this duty is assigned, the audit process should include the following:

- ✓ Verify that all cardholders with current transactions have submitted the required reconciliation.
- ✓ Verify all appropriate signatures or on-line approvals are included.
- ✓ Verify the account codes are correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that original, itemized receipts are attached for every transaction.
- ✓ Verify that the items purchased have a clear district purpose.
- ✓ Verify that any merchandise shipments went to district locations.
- ✓ Verify that sales tax has been paid, if due, and add use tax if not.
- ✓ Verify that federal excise tax has not been charged on gas credit cards.
- ✓ Determine the fiscal year for processing.

Ghost purchasing cards are used by accounts payable as an alternative to paying by warrant or EFT. If the vendor accepts credit cards, it may be advantageous to the district to use this payment method to maximize rebate earnings.

Accounts payable is responsible for paying the credit card or purchasing card monthly statements. This may be done electronically or by warrant. Frequency of payment is often tied to the amount of rebates earned. Districts should calculate the loss of interest earnings versus rebates earned before deciding on the frequency of payment.

A well-designed purchasing card program can significantly reduce the workload of accounts payable. Uploading from the bank's software to the district's fiscal system eliminates a substantial amount of data entry of invoice information and district account codes. The following are some best practices to streamline accounts payable functions:

- ✓ Upload the district's chart of accounts into the bank software.
- ✓ Assign default account codes for each cardholder.
- ✓ Utilize the on-line approval process available in most bank software.
- ✓ Upload the monthly spending activity into the district's fiscal software for payment.
- ✓ Upload spending activity in detail.
- ✓ Scan and attach itemized merchant receipts.

Further information on purchasing card best practices can be found in the Government Finance Officers Association's Best Practices white paper at: http://www.gfoa.org/purchasing-card-programs.

Employee Travel and Expense Claims

Accounts payable is responsible for reimbursing employees and other claimants for travel and expense claims.

The school district board must pass policy for the use of private and commercial transportation, actual or per diem charges for meals, lodging, and other related items pursuant to school board policy or procedures adopted under the guidance of RCW 42.24.090 through 42.24.160.

The following are some best practices for travel and expense claims:

- ✓ A standard form should be used for travel and expense claims.
- ✓ All required receipts should be itemized originals and should be attached.
- ✓ The supervisor who has direct knowledge of the claimant's activities should verify and sign the expense claim.
- ✓ The budget authority, if different than the supervisor, should authorize the expenditure against their budget and provide an account code to be charged.
- ✓ If the expense is being charged to an ASB account, a student signature must also be included.
- ✓ The claimant certification must include the following language: "I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof."

Once an employee's travel and expense claim has been submitted and approved by the supervisor and/or budget authority, it should never be returned to the claimant. This prevents changes to the claim after approval.

Paperless employee travel and expense claim software may be available in some districts. This process can provide costs savings and reduce processing time. In a paperless system, employees enter their claims on a screen rather than on a form. Invoices are scanned and attached to the claim. The claim is routed through approval queues based on account codes and supervisors. The approved claims are accessed by accounts payable and approved for payment without having to reenter data or file hard copy claims.

Expense Claims for Reimbursable Items

Employees may occasionally purchase materials for their classrooms or other business purposes using their personal funds. An expense claim procedure, including standardized forms, should be provided for claimants to request reimbursement. Claim forms may also be used by parents or community members, if appropriate. The district may consider restricting use against certain items (i.e., personal services contracts), requiring pre-approval, requiring monthly claim submittal, and encouraging the use of purchasing cards.

Expense claim must include the following:

- ✓ Name, address, phone, title, and employee number (if applicable) of the claimant.
- ✓ Description of the purchase.
- ✓ Business purpose of the items purchased.
- ✓ The vendor from which the items were purchased.
- ✓ Date of the purchase.
- ✓ Amount of the purchase.
- ✓ Claimant signature and certification.
- ✓ Lines for approval signatures.
- ✓ Account numbers to be charged.

The certification must include the following language: “I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof.”

Accounts payable is responsible for auditing the claims, working with claimant and/or supervisor for missing items, and processing the claims for payment. During this process, the signed and authorized claim form should never be returned directly to the claimant.

The audit process should include the following:

- ✓ Verify all appropriate signatures are included.
- ✓ Verify an account code is included.
- ✓ Verify the account code is correct per the district’s chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that original, itemized receipts are attached for each item being claimed.
- ✓ Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, or amount limitations.
- ✓ Verify that sales tax has been paid, if applicable, and add use tax if it has not.
- ✓ Determine the fiscal year for processing.

Tip: The district may wish to consider limitations on reimbursable expense claims in order to control spending and adhere to purchasing regulations. For example, districts may wish to limit the amount employees can spend using this process, restrict against personal services contracts, require monthly submittal of claims, and encourage the use of purchasing cards.

Daily Travel and Mileage

Employees are entitled to claim mileage for business travel using their personal vehicle. *Accounts payable* is responsible for ensuring that district procedures are being followed and claims are paid.

Districts must comply with IRS regulations on nontaxable benefits. Any amounts paid in excess of IRS regulations must be added to the employee's W2 and payroll taxes applied. IRS considers employees for purposes of travel rules (working condition fringe benefits) to include: current employees, board members, and independent contractors. Any amounts paid in excess of IRS regulations to independent contractor must be added to the contractors 1099-NEC.

IRS Mileage Rate

IRS sets a mileage rate annually based on the total cost to operate a vehicle (gas, maintenance, and insurance). This rate is typically issued in January for the entire calendar year. Districts may set a rate less than the IRS mileage rate. Districts may also set policy to coincide with the IRS rate. If the district chooses to pay more than the IRS mileage rate, then the excess amount is considered a taxable wage and must be processed through payroll.

Commuting

IRS has very specific criteria in determining what is considered commuting. Any mileage reimbursement for commuting is considered a taxable wage and must be added to the employee's W2 and payroll taxes applied.

Commuting is considered the travel between home and work. Return trips to work are also considered commuting. For example, if a principal returns to school for an evening event, the mileage is considered commuting. If mileage is paid for second trips to an employee's primary work location, it must be considered a wage and must be added to the employee's W2 and payroll taxes applied.

Mileage claims must include the following:

- ✓ Name, address, phone, title, and employee number, if applicable, of claimant.
- ✓ Date of the travel.
- ✓ To and from travel points.
- ✓ Business purpose of the travel.
- ✓ Claimant signature and certification.
- ✓ Lines for approval signatures.
- ✓ Account numbers to be charged.

Any mileage claims that are not substantiated with details as to the date, time, travel destination, and business purpose must be considered a wage and processed through payroll and taxed accordingly.

Accounts payable should verify that:

- ✓ Mileage is reasonable or matches district mileage charts. Questionable distances can be verified on-line.
- ✓ Descriptions of the travel provide enough detail to verify the business purpose of the travel.
- ✓ Verify all appropriate signatures are included.
- ✓ Verify an account code is included.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that all district policies and procedures are being followed in terms of restrictions, timeliness, and limitations.
- ✓ Apply correct mileage rate applicable for the time of travel.
- ✓ Determine the fiscal year for processing.

Expense Claims for Meals (while not in overnight travel status)

IRS regulations limit meal reimbursements when the employee is not in an overnight travel status. Meals for daily travel can only be reimbursed as a non-taxable event if the meal is provided at and during a business meeting. For example, if the employee attends a meeting at the ESD and the meal is purchased and consumed during the meeting, then the meal qualifies for reimbursement under IRS regulations. If the meeting provides for a lunch break and the employee leaves to eat a meal in a restaurant, reimbursement of the meal would be considered a taxable event. Meal per diem is not allowed under IRS regulations for meals not associated with overnight travel. If the meal purchased and consumed during the meeting is reimbursed at meal per diem, it must be considered a taxable event.

Expense claims for meals must include the following:

- ✓ Name, address, phone, title, and employee number (if applicable) of the claimant.
- ✓ The name of the meeting attended (with agenda attached).
- ✓ Who was paid to provide the meal?
- ✓ The cost of the meal (including tax and standard tipping) with receipt attached.
- ✓ Claimant signature and certification.
- ✓ Approval signatures.
- ✓ Account numbers to be charged.
- ✓ If the claimant is filing a claim on behalf of others, he or she must prepare a detailed account that includes:
    - Names of the others who partook of meals.
    - Whether they were district employees and, if not, who they were and what connections they had with district business. This should not be construed to permit promotional hosting.

Accounts payable is responsible for verifying that the meal claim meets all district policies and procedures. Accounts payable should verify that:

- ✓ Description provides enough detail to verify the business purpose of the meal.
- ✓ Agenda provides evidence that the meal was provided at the business location and during the meeting.
- ✓ Original, itemized receipt is attached.
- ✓ Verify that no alcohol is being reimbursed.
- ✓ Verify that no excess tipping is occurring (greater than 20%).
- ✓ If additional meals are being purchased, verify that the additional names of those who partook of the meals are included and they are district employees.
- ✓ Verify all appropriate signatures are included.
- ✓ Verify an account code is included.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, and limitations.
- ✓ The correct fiscal year is charged.

Overnight Travel

Overnight travel has a negative connotation with the public and demands a high level of control to assure reasonableness of expenditures and strict adherence to district policy and procedure. District travel procedures must be adopted under the guidance of RCW 42.24.115 through 42.24.160, IRS regulations on non-taxable benefits, and guidance available in the Accounting Manual for Public School Districts in the State of Washington, Chapter 3. The district should also consider setting policy on how far claimants must travel from their place of employment or home before an overnight stay is allowed. District policy should state whether the night before and the night after a conference is reimbursable. In no case can the district reimburse for family member travel.

Districts may reimburse for overnight travel based on meal and lodging per diem, actual expenses, or a combination of both.

Transportation During Overnight Travel

Transportation may include commercial transportation such as air, train, taxi, shuttle, or bus. Airfare should be the lowest fair or coach class. Baggage fees may be reimbursed. Travel to, from, and at the business location may be reimbursed. For example, travel to the airport, travel from the airport to the hotel, and travel from the hotel to the conference center may be reimbursed. Car rentals should be at the economy or compact car rate unless circumstances require a larger vehicle. The district should not reimburse employees for any optional insurance coverage on rental cars. Receipts should be required for commercial transportation. The district may consider not requiring receipts for minor costs such as day parking and tolls.

Meals During Overnight Travel

Districts may have a policy to reimburse for meals based on actual expenses, meal per diem, or a combination of both.

Meals Based on Actual Expenses

Meals may be reimbursed based on actual expenses. If the district's policy is to pay based on actual expenses, receipts are required. If the claimant is filing a claim on behalf of others, he or she must prepare a detailed account that includes:

- Names of the others who partook of meals.
- Whether they were district employees and, if not, who they were and what connections they had with district business. This should not be construed to permit promotional hosting.

Meal per Diem

Meals may be reimbursed on a meal per diem. Meal per diem can only be used when the claimant is in travel status. Meal per diem rates can be set at or below the federal rates. Lodging and meal rates vary by city. See publication 1542 or http://www.gsa.gov/portal/content/104877 for current meal per diem rates. Meal per diem includes taxes and tips. If the district pays more than IRS rates, it is a taxable wage and must be added to the employee's W2 and payroll taxes applied.

IRS regulations require a reasonable method for prorating meal per diem on days of departure and return. For example, the ¾ rule pays ¾ of the meal per diem allowance on the departure and return dates. Another method, in use by the Office of Financial Management, prorates based on the time of departure and the time of return. Under this method, an employee must leave three hours before their regular start time to qualify for all three meals. The same three-hour rule applies to the employee's return.

District policy may include a restriction against reimbursing for meals that are provided as part of the conference registration cost.

Receipts are not required when using meal per diem.

Lodging During Overnight Travel

The district may have a policy to reimburse for lodging based on actual expenses, lodging per diem, or a combination of both.

Lodging Based on Actual Expenses

Lodging may be reimbursed based on actual expenses. If the district's policy is to pay based on actual expenses, receipts are required. Conference or government rates should be requested. In no case shall extra costs for family members or in-room entertainment be reimbursed. The cost of tipping for hotel staff may be reimbursed without receipt at a reasonable rate.

Lodging Based on Lodging Per Diem

Lodging may be reimbursed based on lodging per diem. Lodging per diem is based on the city where the employee is spending the night. See publication 1542 or http://www.gsa.gov/ for current lodging per diem rates. Lodging tax and energy charges are not part of lodging per diem and may be reimbursed in addition to lodging per diem. Actual receipts are required if reimbursing for additional charges.

If the district pays more than IRS rates, it is a taxable wage and must be added to the employee's W2 and payroll taxes applied

Other Travel Expenses

All other travel expenses should be based on actual expense.

Overnight travel claims must include the following:

- ✓ Name, address, phone, title, and employee number (if applicable) of the claimant.
- ✓ The name of the conference or event.
- ✓ Registration or agenda of event attended.
- ✓ Dates and times of departure and return.
- ✓ Place of travel.
- ✓ Descriptions of all amounts being claimed.
- ✓ Claimant signature and certification.
- ✓ Lines for approval signatures.

Accounts payable is responsible for verifying that the travel claim meets all district policies and procedures.

Accounts payable should verify that:

- ✓ Description provides enough detail to verify the business purpose of the travel.
- ✓ Agenda provides verification that start and end dates of the conference coincide with the travel days being claimed.
- ✓ Agenda provides verification that no meals are being claimed for reimbursement which were already provided as part of the registration fee.
- ✓ Lodging does not include the cost of family members, the cost of in-room entertainment, or room service already being claimed as meal per diem.
- ✓ Original, itemized receipt is attached for all actual claims requiring receipts.

- ✓ If additional meals are being purchased, verify that the additional names of those who partook of the meals are included and they are district employees.
- ✓ Verify all appropriate signatures are included.
- ✓ Verify an account code is included.
- ✓ Verify the account code is correct per the district's chart-of-accounts, department responsibility, and state account code requirements for program, activity, and object.
- ✓ Verify that all district policy and procedure is being followed in terms of restrictions, timeliness, and limitations.
- ✓ Determine the fiscal year for processing.

Tip: Using meal per diem can control excess spending on meals and eliminates processing and handling of multiple receipts.

Travel Advances and Travel Charge Cards

Travel Advances

If the claimant has received a travel advance prior to the travel, the final travel claim must include a settlement of the advances on or before the 15th day following the close of the travel period. This settlement will be submitted by the traveler to the custodian of the travel advance expense account.

If travel expenses exceed the amount of the advance, the travel claim will be submitted to accounts payable for the balance due to the traveler. The original advance request will be used to support the additional replenishment request.

See the Accounting Manual for Public School Districts in the State of Washington, Chapter 3, for complete Advance Travel Expense Account requirements.

Travel Charge Cards

A school district may provide travel charge cards to employees for the purpose of covering authorized travel. RCW 42.24.115 requires the cardholder to submit a fully itemized travel expense form within 30 days of billing. Any charges against the charge card not properly identified on the travel expense claim form or not allowed under district policy, must be repaid to the district by the cardholder by check or salary deduction.

Refunds of Revenue

School districts are sometimes required to refund amounts previously collected as revenues. Examples might include:

- ✓ Food services prepaid lunch account balances for withdrawing students.
- ✓ Lost book fines when a book is later found and returned.
- ✓ Student fees when the student withdraws from a class.

These refund requests are typically initiated at the school level. Districts may process refunds through their business office or through the school's imprest fund. Regardless of who makes the payment, the refund request should be made using a standard form.

The refund request form should include the following:

- ✓ Name of the parent or guardian to be refunded.
- ✓ Name of student and student ID.
- ✓ Home address of parent or guardian.
- ✓ Reason for refund.
- ✓ Amount of refund.
- ✓ Revenue account used on original cash receipt.
- ✓ Signature of the individual approving the refund.
- ✓ A copy of the original receipt proving the fees were actually collected.

The refund check should not be processed by the same individual approving the refund request. Refunds should be paid against the revenue account originally used when collecting the fee. For example, a refund request for a lost book fine should be charged to revenue 960 2600.

Accounts payable, whether processing the payment directly or replenishing a school imprest account, should verify that the refund request form is complete, signed, and all that the required documentation is attached.

The district should have written policy and procedures on refunds.

From Invoice to Payment

Each district must develop procedures to ensure accuracy of payments and control over warrant and electronic funds transfer (EFT). These procedures must include:

- ✓ Internal controls such as verification, approval, and segregation of duties.
- ✓ Adhere to all applicable laws.
- ✓ Utilize security and processes available within the district's software.
- ✓ Consider the number of available staff.

Accounts payable technicians process payments based on invoices received by vendors, reimbursement claims submitted by staff, and electronic files received from vendors such as utility companies and purchasing card providers. Accounts payable technicians are responsible for the accuracy of payment based on invoices, purchase orders, verification of receipt of goods and services, and approval of travel and expense claims.

The district must appoint an *auditing officer* who is usually the business manager or director of accounting. The auditing officer is responsible for internal controls over accounts payable and the certification of all accounts payable warrants.

The board of directors of the district may select from its members an *audit committee* to review the accounts payable warrants. The board of directors is responsible and liable for each disbursement by warrant or EFT.

Control Totals and Batch Processing

The use of batch totals will assist in controlling the accuracy of payment. Batches are a grouping of invoices that will be entered into the system for payment. Batches are usually kept to a manageable size of not more than twenty invoices, are similar in their type, and have been prepared by a single accounts payable technician. Batch totals are calculated by running a tape of the total due from the source documents/invoices. After entering the payments into the accounts payable system, the system generated batch totals can be compared to the previously calculated tape totals. The totals should match.

Verification and Approval of Batches

Another key internal control in assuring accuracy is having two sets of eyes on every transaction. In accounts payable, this can be accomplished by having a second individual review the batches of another individual. All data on the batch proof or voucher should be reviewed against source documents. This would include vendor number, vendor address, account codes, invoice number, invoice date, fiscal year, sales tax, and authorization. An electronic approval process may also be utilized to provide evidence of review.

In small districts, a second staff person may not be available for verification and approval. In this case, additional compensating controls should be put in place to assure that one person is not entirely responsible for the payment. An example of an additional control would be to provide details of each payment for review by the board audit committee.

Payment Process

After the accounts payable batches have been entered, verified, and approved, they are ready to process for payment. A payment cycle should be developed by each district which will depend on cash flow, staffing, and board approval policy. Some examples include:

- ✓ Weekly on a specific day of the week.
- ✓ After each board meeting.
- ✓ Monthly on a specific day of the month.

Tip: Paying weekly reduces vendor calls, need for emergency imprest checks, and improves district credit. This is only an option if the district has board approval to pay prior to board certification (see the section on Issuing Warrants Prior to Board Approval).

Districts should develop a process to verify the total of all accounts payable batches equal the total of the entire warrant run.

Printing warrants may be done at the district, at the Educational Service District (ESD), or at the county treasurer. If the district prints their own warrants, the responsibility must be segregated from the accounts payable technicians responsible for entering payments. Smaller districts may segregate these duties by having their ESD print their warrants and process their electronic funds transfer (EFT) orders.

Districts paying vendors by electronic funds transfer (EFT) must develop controls over vendor bank routing information. Any requests submitted to the district to change a vendor bank routing or account should be independently verified by a known vendor representative.

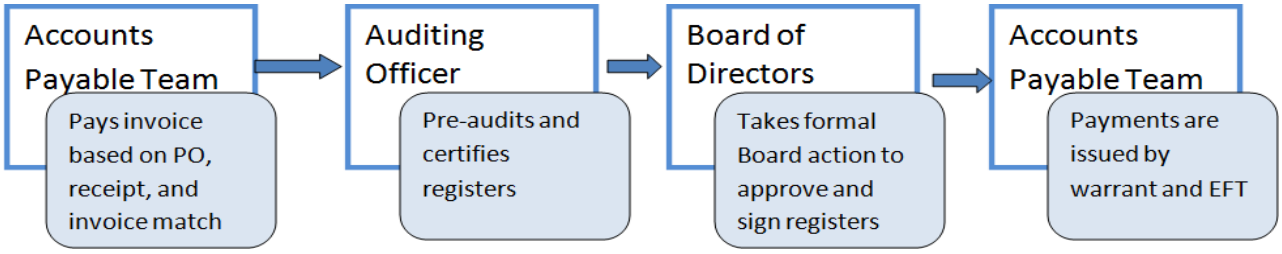
For ESDs and districts printing their own warrants, procedures must be developed to secure warrant stock and access to warrant printing security. These procedures should include:

- ✓ Safeguarding access to preprinted warrant stock.
- ✓ System security to system-generated warrant forms.
- ✓ Safeguarding access to MICR toner.
- ✓ Sequential warrant numbering.
- ✓ Segregation of duties between entering invoices and printing and mailing warrants.
- ✓ Written evidence when transferring responsibility for warrants being picked up by district staff or vendors.
- ✓ If the ESD mails the warrants to the district, a signature should be required when delivered.
- ✓ Segregation of duties between those entering invoices and those transmitting files to county treasurer.
- ✓ System security over file transfers to the county treasurer.

Warrant Certification and Approval

Each district must develop a process to certify and approve warrants as required by law. The warrant certification laws apply to all payments regardless of whether issued by traditional warrant or electronic payment. The district must appoint an auditing officer who is usually a business manager or director of accounting.

The payment to warrant certification process can be illustrated as follows:



Auditing Officer's Responsibilities

All claims for the provision of goods and services, other than payroll, to the school district must be pre-audited and certified by the district's auditing officer or his/her designee. The certification may be made on an individual voucher /warrant request or on a blanket certification for the entire warrant run. The use of a blanket certification does not relieve the auditing officer of the responsibility and liability for each individual voucher/warrant order so certified. The certification must be signed and dated by the auditing officer or his/her designee. For all claims, except travel reimbursements certified by claimants, the certification must include the following language:

> "I, the undersigned, do hereby certify under penalty of perjury that the materials have been furnished, the services rendered, or the labor performed as described herein and that the claim is a just, due and unpaid obligation against _____ School District No._____and that I am authorized to authenticate and certify to said claim."

The auditing officer's certification for employee or school official travel reimbursement claims must include the following language:

> "I, the undersigned, do hereby certify under penalty of perjury that the claim is a just, due and unpaid obligation against_____School District No._____and that I am authorized to certify to said claim."

The certification by the district auditing officer does not relieve members of the board of directors from responsibility and liability for each warrant approved. It is the board's responsibility to ensure that the system of auditing and certifying warrants is operating in a manner to provide the greatest possible protection for the board members and the school district.

Board of Directors' Responsibilities

The board of directors must approve the issuance of accounts payable warrants (RCW 28A.330.080). This can be done in two ways and will depend on the district's size and policy.

Method #1 - Individual Warrant Certification

The law requires that individual warrant orders, often referred to as vouchers, must be signed by the board president, or a majority of the board of directors, and countersigned by the secretary.

Method #2 – Blanket/General Warrant Certification

The law also allows that if the orders for warrants issued by the district monthly shall have reached such numbers that the signing of each warrant by the president personally imposes too great a task on the president, the board of directors, after auditing all payrolls and bills as provided by RCW 28A.330.090, may authorize the issuing of one general certificate to the county treasurer, to be signed by the president, authorizing said treasurer to pay all the warrants specified by date, number, name and amount, and the funds on which said warrants shall be drawn; thereupon the secretary of said board shall be authorized to draw and sign said orders for warrants.

Indication of board of director approval for payment of claim warrants and payroll should be recorded in the minutes of the board meeting by use of the following statement:

> "The following warrants as audited and certified by the auditing officer, as required by RCW 42.24.080, and those expense reimbursement claims certified, as required by RCW 42.24.090, are approved for payment. In addition, payroll warrants in the amount of $_____are approved.
>
> (fund name)
> Warrant numbers xxxxx through xxxxxx totaling $xxxxx.xxx."

The listing must include all payments by fund, including payroll. Payments include warrants, electronic funds transfers and expenditures made directly by the county treasurer. The certification may refer to vouchers, warrants, or electronic fund transfer numbers as appropriate for the circumstances.

Issuing Warrants Prior to Board Approval

Under the authority granted by the board of directors, school districts may issue warrants before the board of directors approves the claims. The board must enact the following policies and procedures as required by RCW 42.24 in order to grant this authority:

- ✓ The auditing officer and the official designated to sign the checks or warrants shall have an official bond in the amount determined by the board, but not less than $50,000 as required by RCW 42.24.180.
- ✓ The board shall adopt contracting, hiring, purchasing, and disbursing policies that implement effective internal controls.
- ✓ The board shall review and approve the claims paid without their prior approval at its next regularly scheduled public meeting.

If the board disapproves any claim paid prior to their approval, the auditing officer and the official designated to sign the check or warrant related to the disapproved claim shall recognize this claim as a receivable of the district and pursue collection diligently until the amount is either collected or the board is satisfied and approves the claim.

The board of directors may stipulate that certain kinds of amounts of claims shall not be paid before the board has reviewed the supporting documentation and approved the issuance of checks or warrants in payment of those claims.

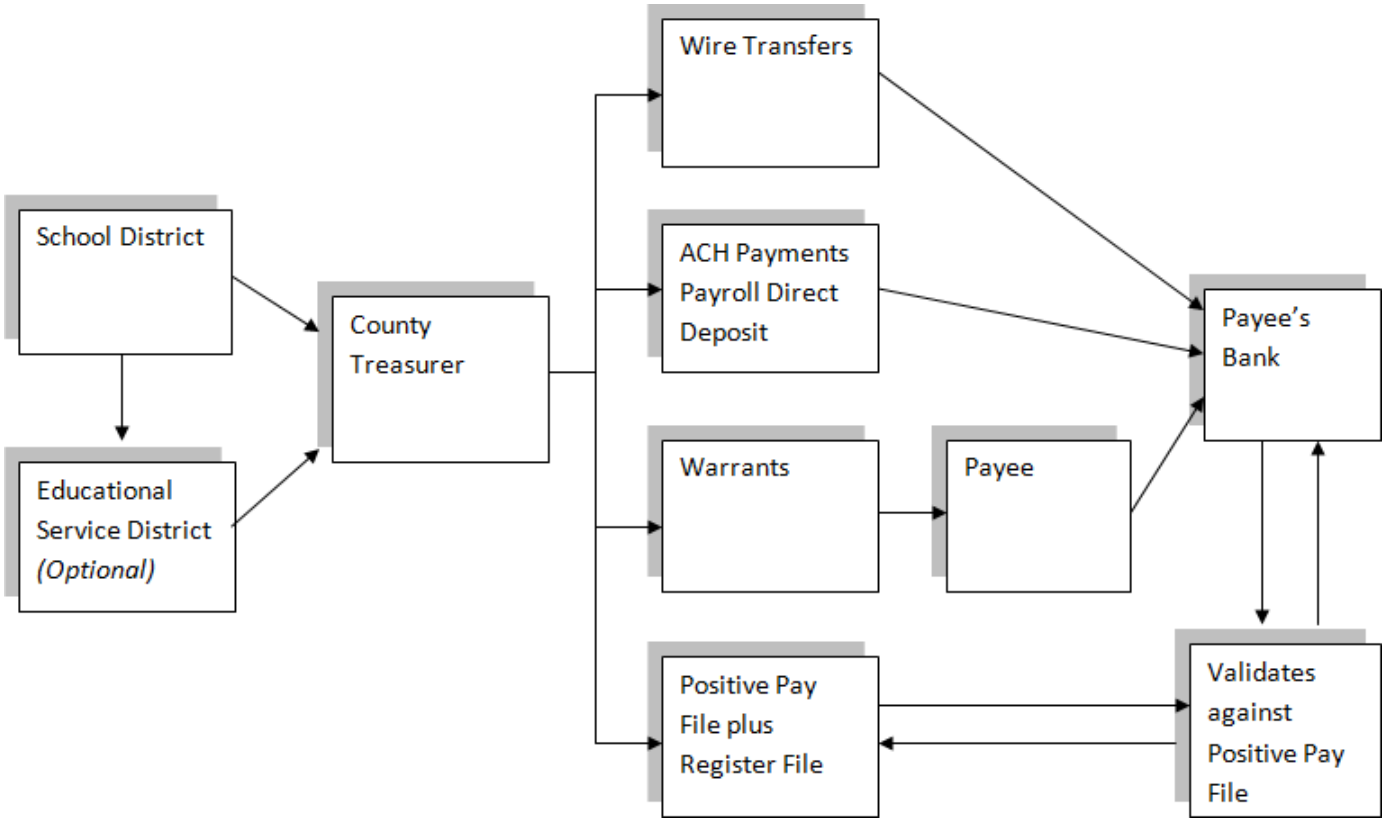
Board Audit Committee Responsibilities:

All accounts shall be audited by a committee of board members chosen in such manner as the board so determines to be styled the "auditing committee.” Each school district’s procedure for the auditing committee may vary. This may be one board member responsible for review of selected payments from the warrant certification or it may involve all board members who review all details of all payments. In small districts where segregation of business office responsibilities over disbursements is not possible, a more detailed level of board review is recommended.

Warrants, Wire Transfers, and Other Payment Methods

Several methods are available to school districts to initiate payment to vendors and employees. All accounts payable disbursements must be issued by warrant or wire transfer through the county treasurer per RCW 28A.330.080. Checks issued through imprest checking accounts are eventually replenished by warrant and approved by the board. The total of all credit cards and purchasing cards are eventually paid off by a warrant or wire transfer and approved by the board.

The following is an illustration of the payment methods and how money flows from a school district, the Educational Service District, county treasurer, and eventually to a payee.



Warrants are similar to checks but vary in several important ways:

- ✓ Warrants are drawn on the county treasurer rather than a check which is drawn on a bank.
- ✓ The county treasurer has the right to honor the warrant or refuse the warrant because it appears to be fraudulent.
- ✓ A warrant is not dependent of the cash a district has available. They will not bounce like a check. A warrant will become a debt instrument if the district does not have sufficient funds to pay the items. It then becomes an interest bearing warrant.
- ✓ The banking system treats the warrant just like a check but the bank assumes a degree of risk in paying an item because the county treasurer could reject it when presented to the county for payment.

When issuing warrants, each district must prepare a warrant register or electronic file prior to the warrants being mailed or released to the recipient. This file must contain all warrants specified by date, number, name, amount, and the funds on which the warrants are to be drawn. The county treasurer creates a positive pay file and will only honor warrants that match the information provided by the district. This is a valuable tool in preventing check fraud.

Wire transfers are available to school districts through their county treasurer. Wire transfers are used for large, one-time payments that are time sensitive. All wire transfers must go through the same approval and certification process as warrants. After receiving the wire transfer request, the county treasurer will wire transfer the funds from the district's account to the recipient using bank routing and account information.

Automated Clearing House (ACH) is an electronic payment done by batch from one bank account to another. It is designed for large volume payments such as direct deposit payroll and vendor payments. ACH payments must go through the same approval and certification process as warrants. ACH payments flow through bank accounts, similar to the payroll direct deposit account (see below). These accounts are typically county bank accounts. If the county treasurer allows ACH payments to flow through a district bank account, the funding of the account is run through the county. Not all county treasurers allow the ACH option for vendor payments.

Payroll direct deposit bank accounts may be used for employee travel and expense claims processed through accounts payable. A payroll direct deposit bank account may be owned by the school district or set up by their county treasurer. This account is funded for the total amount of an employee payroll or travel and expense claim direct deposit register. The district will transfer funds into the payroll direct deposit account sufficient to cover the EFT register. The transfer process varies from district to district and may be done by warrant, EFT, or automated through the county. The district then provides a file to the commercial bank listing the employees, the payment amounts, and employees' banking information. The commercial bank then transfers funds out of the payroll direct deposit account into each employee's personal bank account. After the transfer process is complete, the payroll direct deposit account should have a zero balance.

Other payment methods may be used by the district such as credit cards, purchasing cards, or imprest checks. These payment methods must be initially authorized by the board. Board approval and authorization of the actual disbursement occurs when a warrant (or EFT) is issued to replenish the imprest accounts or pay the credit and purchasing card balance.

Warrant Voids, Cancellations, and Duplicate Instruments

There are several circumstances when accounts payable may need to void or cancel a check:

- Void a pre-numbered check that has been misprinted.
- Void or cancel a warrant that should never have been issued.
- Cancel a warrant that is outstanding over one year.
- Cancel a warrant that has been lost or stolen.

Although the term void and cancellation are often used interchangeably, for purposes of this manual, there will be a distinction between the two. Basically, voids are done before the check or warrant process is complete and cancellations are done after the warrant is fully processed and often already mailed to the payee.

Warrant Voids

A void is most commonly used with pre-numbered check or warrant stock. The physical warrant or check must be in the possession of the district in order to void it. An example of a void would be when a pre-numbered check has been spoiled and can no longer be used. Example: The blank checks 1001 through 1099 were printed up-side-down and can no longer be used.

- ✓ Void a warrant through the district's software system. The software should provide evidence of the warrant number and the void status. The entry should reverse the expenditure and warrants outstanding if previously posted.
- ✓ Clearly mark void across the face of the warrant or check.

Warrant Cancellations

Once a warrant has been issued and mailed to the payee, it cannot be voided but must be cancelled. The warrant must still be outstanding. Cancellations may be required if the warrant was issued incorrectly, lost, or stale dated (outstanding over one year).

Accounts payable should:

- ✓ Verify that the warrant is still outstanding.
- ✓ Verify the remit address in the vendor data base is correct.
- ✓ Cancel the warrant in the current fiscal year. This is normally done through the district's fiscal software and should result in a decrease to the original account (usually an expenditure) and a decrease to warrants outstanding (G/L 241).
- ✓ Send notification to the county of the cancellation.
- ✓ If the warrant is to be reissued, see Duplicate Warrants below.

Warrant Cancellations – Stale dated after one Year

Warrants outstanding after one year should be cancelled by passage of a resolution of the school board, and the records shall be as if the warrants were never issued (RCW 39.56.040). Each county treasurer will provide the district with a report of outstanding warrants. These reports should be reviewed and an attempt made to contact the payee to ensure that the warrant is redeemed or reissued. If the payee cannot be located the

warrant will need to be cancelled and the amount remitted to the Department of Revenue, Unclaimed Property Division. See the Unclaimed Property for further details.

Warrants cancellation process for stale dated warrants:

- ✓ Cancel the warrant in the *current fiscal year*. This may be done through the district's fiscal software and should result in a decrease/debit to warrants outstanding (G/L 241).
- ✓ Send notification to the county of the cancellation.
- ✓ Record warrant cancellation as unclaimed property either as an unclaimed property liability or a credit to an expenditure account. See details in the unclaimed property section of this manual.

Duplicate Warrants

It may be necessary to reissue lost and outstanding warrants. The district should first make contact with their county treasurer to verify that the warrant is still outstanding. This may be done by phone or on-line access to warrant redemption information. If the warrant is still outstanding, the district must first obtain an affidavit from the payee and second process a duplicate instrument through their fiscal software and send notice to the county.

Steps in processing duplicate warrants:

- ✓ Verify with the county that the warrant is outstanding.
- ✓ Obtain a signed and notarized affidavit of lost warrant from the payee
- ✓ Send notice to the county of the duplicate issue.
- ✓ Enter the duplicate instrument in the financial software.
- ✓ Issue a duplicate instrument to the payee.

When presented with a request to reissue a lost warrant, the first step is to verify that the warrant is still outstanding. To obtain the most up-to-date information, the district should call or access on-line warrant redemption information at their county.

Before a duplicate warrant is issued, the district must require the payee or the person representing the payee to make application for the issuance of the duplicate by filing a written affidavit specifically alleging on oath that he/she is the proper owner, payee or legal representative of such owner or payee of the original warrant. Additional information required in the affidavit is the date of the issue, the warrant number, the amount, and for what services, claim or purposes the original instrument or series of instruments of which it is a part of was issued, and that the original has been lost or destroyed and has not been paid.

The following is a sample affidavit for use by all school districts:

AFFIDAVIT

STATE OF WASHINGTON) ss,

COUNTY OF_____)

I,_____, being first duly sworn upon oath, depose and say that I am the proper owner, payee, or legal representative of such owner or payee of_School District No._____, original (warrant/check) No._____dated_____in the amount of_____dollars ($_____) which said instrument was issued in payment for _____ and that the same has been lost or destroyed and has not been paid.

_____

(Signature)

Subscribed and sworn to before me this_____day of_____, 20___.

_____

(Notary Public in and for the state of Washington)

Residing at _____

Upon receipt of the fully executed affidavit, the district should reissue the warrant through the district's financial software. There should be a clear tie between the duplicate warrant and the original warrant number for good internal control. An outstanding warrant without a tie to a duplicate issue could result in an unclaimed property liability.

The final step is to send notice to your county of the duplicate issue. Procedures will depend on the county.

Sales Tax

Sales tax is a tax on the consumer for the purchase of items, rentals, repair, and installation of tangible personal property including labor. School districts are required to pay sales tax on their purchases just like any other consumer in Washington State. Washington State vendors must include sales tax on their invoices. Sales tax must be separately stated. Delivery and shipping and handling charges are subject to sales tax.

Washington State tax rates are based on either the vendor's location or the destination where the items will be shipped or delivered. For a school district, this means that items ordered from a vendor in Seattle and shipped to a school in Omak, must include the sales tax rate in Omak. However, if a school district employee visits a music store in Bothell and purchases items, the store will charge the sales tax in Bothell, where the store is located. Why is this important?

Washington State has a combined sales tax rate. 6.5% goes to the state. The remainder of the sales tax is for the local jurisdictions and ranges from 0.005% to 4.0%. For example in Othello, the sales tax rate is 8.2%. 6.5 % goes to the state and 1.7% eventually goes to Othello's local jurisdictions (based on 2019 rates). It is important for the vendor to charge and report the sales tax using Othello's tax code and rate to provide needed tax revenues in Othello.

Each jurisdiction has a four-digit sales tax location code. For example, Othello's sales tax location code is 0103. School Districts may have multiple sales tax location codes for cities, unincorporated counties, and special taxing districts.

Tax rates can be found on The Department of Revenue website at: http://dor.wa.gov

Vendors are responsible for charging sales tax at the correct rate on their invoices. They must know and charge the correct rate based on the location of purchase or the *destination* of shipment or delivery. The vendor holds the sales taxes collected from districts in trust until they remit the amounts to the state. The vendor is liable for the sales tax even if they failed to collect it or collected it at the wrong rate. The vendor must also remit over-collected sales tax.

Sales taxes must be separately stated on all invoices. Why is this important? The district needs to know that sales tax is included and it is charged at the correct rate. This also provides an audit trail for both the district and the state to ensure that all sales taxes collected are remitted to the Washington State Department of Revenue.

The vendor should add sales taxes on the following items:

- ✓ Sale of tangible personal property.
- ✓ Sale of services such as installation, repair, cleaning, altering, improving, construction, and decorating.
- ✓ Other services including improving real or personal property.
- ✓ Amusement and recreational activities (see WAC 458.20.183 for details).
- ✓ Lawn maintenance.
- ✓ Sale of digital products to consumers.

For a complete list of items requiring sales tax visit: http://dor.wa.gov

For a complete list of sales-tax exempt items such as food and newspapers, follow this link to a list of retail sales and use tax exemptions on the Department of Revenue website.

Items purchased for *resale* are also exempt from sales tax. For school districts this may apply to items purchased for resale as part of their ASB fundraising events. If the district has been granted a reseller permit, this permit must be provided to vendors. In this case, the vendor will not charge sales tax.

Accounts payable is responsible for verifying that all applicable invoices have sales tax added and at the correct rate. For districts with multiple sales tax locations, it is recommended that purchase orders clearly indicate the ship to location and the sales tax location code and rate.

If the vendor does not charge sales tax correctly, the district has two options: 1) return the invoice to the vendor for correction; or 2) pay *use tax*. The district should not add sales tax or correct the sales tax amount on the vendor's invoice and pay a corrected amount to the vendor.

Out-of-state vendors, who are not authorized to collect Washington State sales tax, will not add sales tax to their invoices. These invoices will be subject to use tax. Details on use tax are covered in the next section.

Use Tax

Use tax is a tax on the use of goods or certain services in Washington when Washington's sales tax has not been paid. Use tax is a complementary tax to sales tax. Either sales tax or use tax applies, not both. The tax applies regardless of where, or from whom, the property is purchased.

Use tax is due if:

- ✓ Goods are purchased out of state by subscription, through the internet, or from a mail order catalog company. Many of these vendors collect Washington sales tax, but if the vendor does not, the district owes use tax.
- ✓ The items are purchased from a vendor who is not authorized to collect sales tax in Washington. For example, the district purchases costumes for a drama performance from an individual at a garage sale.
- ✓ The items are purchased in another state that does not have a sales tax or a state with a sales tax lower than Washington's. For example, a teacher purchases classroom materials while visiting Oregon.

Accounts payable is responsible for determining if use tax should be added to an invoice. Use tax is calculated on the total of the invoice, including freight, delivery or shipping charges. Use tax is the same as the sales tax rate. Always use the sales tax rate where the items purchased are first used, not where the sale takes place.

To determine the tax rates, use the Tax Lookup Tool on the Department of Revenue website.

Accounts payable must also determine if use tax is due on any employee expense claims, purchasing or credit card transactions, or imprest fund checks.

Use tax due on an invoice should be charged to the same expenditure account code used on the original purchase.

Paying Use Tax to the Department of Revenue

The district must accumulate the amount of use tax due in the Use Tax Liability Account until payment is made to the Department of Revenue. The amount due to the Department of Revenue is reported on the district's Combined Excise Tax Return. The amount of use tax transactions should be reconciled to the Combined Excise Tax Return. See the Department of Revenue website for complete instructions and frequency of filing requirements here: http://dor.wa.gov/content/FileAndPayTaxes/.

Federal Excise Tax Exemption

School districts are exempt from paying Federal Excise Tax on taxable fuels (i.e., gasoline, kerosene, and diesel). To qualify for tax-free treatment, a school district must purchase the fuel for its own exclusive use. It is permissible, however, to resale fuel to another school district, government entity or a nonprofit education organization. For example, a school district purchases fuel for its underground storage tanks and may allow the city to purchase fuel for the city maintenance vehicles from the district gas pumps.

A school district must complete a tax exempt certificate signed by an officer of the district and furnish it to the fuel vendor or credit card issuer. These certificates may be kept on file by the vendor for up to one year.

In the case of a fuel card (credit card) issued to a school district for use in purchasing tax exempt fuel, the credit card issuer must meet specific criteria with the federal government in order to accept a tax exempt certificate. School districts should exercise care to ensure that the fuel supplier or credit card issuer meets the necessary requirements to process tax exempt transactions.

If the issuer of the fuel credit card does not meet the criteria, the district may claim reimbursement directly from the federal government. Additional Information on motor fuel excise tax and fuel credits is provided in Publication 510, Excise Taxes and Form 8849, Claim for Refund of Excise Taxes.

Accounts payable is responsible for verifying that all invoices for fuel do not include federal excise tax.

Public Works and Retainage

Anytime a school district enters into a contract for work, construction alternation, repair, or improvement other than ordinary maintenance to any district property, public works requirements will apply (RWC 39.04.010). District property includes land and buildings. Land includes all real estate owned by the district including improvements or upgrades such as playing fields, driveways, and drainage systems. Buildings include district-owned structures, including their electrical, plumbing, HVAC systems and permanent non-moveable, built-in furnishings such as student lockers, cabinets and closets. Also included are renovations, improvements, and additions to the original structure. For purposes of public works, do not include moveable equipment, vehicles, machinery, and moveable technology assets.

It is important that vendors know the public works requirements before entering into a contract or beginning work. For accounts payable, this means that retainage will need to be computed and deducted from each invoice submitted on a public works contract. Retainage is a percentage of the invoice held in an escrow account or by the district until 45 days after completion of the contract or until all liens against the contract have been released. The purpose is to make sure that the contractor has paid all taxes, subcontractors, and materials for that job, which would otherwise be a liability of the district (RCW 60.28.011 and RCW 60.28.021).

Effective July 1, 2024, public works contracts between $0 and $5,000 do not require retainage with a Department of Labor & Industries' Small Works Public Works Contract form. For public works contracts between $5,000 and $150,000 contractors have the option of having 10% retained or 5% retained with a performance and payment bond.Contracts over $150,000 must either have 5% retained or provide a retainage bond. If the contractor provides a retainage bond, than no retainage is withheld from the vendor invoices. Contracts over $150,000 must also have a performance and payment bond.

<u>Documents required prior to commencement of project</u>

Contractor's responsibilities:

1. Performance/payment bond (projects over $150,000).
2. Certificate of insurance (based on district requirements).
3. Builders risk insurance (based on district requirements).
4. Statement of intent to pay: A completed "Statement of Intent to Pay Prevailing Wages" form must be submitted to Department of Labor & Industries. The Department of Labor & Industries' approved form must be submitted to the district.
5. List of subcontractors.

<u>Retainage Options</u>

Contractor's responsibilities:

1. Contractor's option (projects over $150,000): contractor must complete and return the Contractor's Option form for the retained percentage to the district.
    - Escrow account: the district will mail the contractor an escrow agreement with instructions for completion.
    - Bond: contractor must provide a retainage bond to cover the amount of retainage on the contract plus any increases in the contract.
    - Public body*:* The district will hold the retainage funds in a non-interest bearing account until all requirements are met for its release.

<u>Notices of Completion</u>

School District's responsibilities (projects over $35,000):

1. "Notice of Completion" form emailed to three state agencies:
    - Department of Revenue
    - Employment Security Department

- Department of Labor & Industries: All Department of Labor & Industries' approved Affidavits of Wages Paid for project must be submitted to the district before completion notice can be sent to the Department of Labor & Industries.

Documents required prior to release of retainage

Contractor's responsibilities:

1. Affidavit of Wages Paid: "Affidavit of Wages Paid" form for contractor and all subs must be submitted to and approved by Department of Labor & Industries. Department of Labor & Industries' approved forms must be submitted to the district.
2. Department of Revenue Release: The Department of Revenue will send a reconciliation form to the contractor based on the "Notice of Completion" sent by the district. Contractor must complete the reconciliation and return it to Department of Revenue.
3. Lien Releases: All liens must be resolved prior to the release of retainage. A copy of a "Lien Release" letter must be sent to the district on all outstanding liens. Subcontractors have 45 days after final acceptance of a project to file a lien against the contractor.
4. Department of Labor & Industries confirmation: Contractor may be asked to provide documentation showing that they and all their subcontractors have current accounts with the Department of Labor & Industries relative to all premiums incurred as a result of the project.
5. Apprenticeship Utilization Proof (Projects over $1,000,000): Provide detail of Apprenticeship Utilization on project as required by RCW 39.04.320.

State Agency Releases (Projects over $35,000)

1. Employment Security Release: The Employment Security Department will send the district a release letter upon review of the "Notice of Completion."
2. Department of Revenue Release: Once the Department of Revenue receives the completed reconciliation from the contractor they will review & approve it. Once it is approved, the Department of Revenue will issue a release letter to the district.
3. Department of Labor & Industries Release: Department of Labor & Industries will send the district a release letter when confirmation of current premiums is made and Affidavits of Wages Paid are reviewed.

Release of Retainage:

Release of retainage is subject to the following criteria:

1. Completion of the above items.
2. Forty-five day grace period from date of final acceptance.

Accounts payable is responsible for deducting the correct amount of retainage from each contractor invoice. If the contractor has already deducted retainage, then accounts payable is responsible for checking the accuracy. Retainage is calculated on the invoice total before sales tax.

For Example:

$10,000.00 Invoice Subtotal
$ 950.00 Add sales tax on Subtotal @ 9.5%
$ 1,000.00 Deduct retainage @ 10% (calculate on subtotal not including tax)
$ 9,950.00 Total Due (subtotal + tax - retainage = total due)

If the contractor selected the option to have retainage paid into an escrow account, the district will process two payments. The first payment is to the contractor for $9,950. The second payment is to a commercial bank which holds the contractor's escrow account. The amount paid to the bank in this example is $1,000. Both payments are paid against the expenditure account provided on the purchase order.

If the contractor selected to have the retainage held by the district, accounts payable will initially issue one check, for the $9,950. When the retainage has been approved for release, accounts payable will need to issue a final payment for the entire amount held by the district. In this example, the amount to be released to the contractor is $1,000. The vendor may provide an invoice for the $1,000, or the district may use the original invoice clearly noting the retainage amount to be paid.

The district must recognize the expenditure and liability for any retainage held by the district. The entry is a debit to the expenditure account and a credit to the liability account 601 Accounts Payable or 602 Contracts Payable - Current. A separate liability account may be maintained at the district level to track retainage held on public works contracts. At year end, this account should be reconciled and closed into state general ledger account 601 or 602. See Year End section of this manual for complete details on year end requirements.

Internal Controls

Internal control is a process, affected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operation, reliability of financial reporting, compliance with applicable laws and regulations. Internal controls should benefit rather than hinder the school district and will be unique based on the internal controls of the individual school district's operating environment. They also need to be cost effective.

Each school district is responsible for reviewing their business practices and to determine where risks exist and where and how controls can be established to mitigate them. High risk areas in accounts payable are:

- Purchasing card transactions
- Petty cash and imprest account transactions
- Employee travel and expense reimbursements
- Contractual/personal services invoices

The payment of vendors supplying stuff ordered through the district purchase order process has the lowest risk. This is due to the number of verifications and approvals in place.

Key internal control activities over accounts payable should include:

- ✓ Approvals
- ✓ Verifications
- ✓ Reconciliations
- ✓ Physical controls
- ✓ Segregation of duties
- ✓ Review and analysis

Approvals and verifications occur during many stages of the purchase to pay process. These activities are covered in detail in the appropriate sections of this manual. It is important for the Accounts Payable Department to have *approval lists* or sample signatures from budget managers in order to ensure appropriate approvals are being received.

Reconciliation activities in accounts payable should occur in several areas. Vendor statements should be reconciled to district payment records. Imprest fund replenishments should be reconciled to bank statements, check registers, and expenditure details. Purchasing card summary statements should be reconciled to individual cardholder documentation.

Reconciling of general ledger accounts pertaining to accounts payable must also be done. These accounts include: Accounts Payable Liability, Contractor Retainage Payable Liability, Sales and Use Tax Payable, Warrants Outstanding, Purchasing Card Payable, Prepaid Expenses, and Inventories.

Physical controls relating to the Accounts Payable Department pertain to warrant stock and MICR toner. Physical control and security activities are covered in detail in the "Warrant, Wire Transfers and Other Payment Methods" section. Physical controls should also be in place for password documentation and computer devises used to authorize electronic payments.

Segregation of duties is one of the most important features of a good internal control structure. Segregation of duties means that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. In a large district, segregation levels may be by department while in a small district it will be by individual. In accounts payable, the following activities must be properly segregated:

- ✓ The individual who approves the warrant run should not be the individual who prints the warrants.
- ✓ The individual who approves the warrant issue should not be the person who receives returned warrants (example: bad address).
- ✓ The individual who processes payment cannot also be responsible for the fixed asset.
- ✓ The individual who enters payments should not process the warrant.
- ✓ The individual who uploads electronic payments should not also approve their release.
- ✓ The individual who mails out warrants should not be the individual who is creating the payment.
- ✓ The individual who maintains the vendor database should not be the person who is creating the payments.

How each district implements segregation of duties will depend on the size of the district and available external resources. For example, small districts may use their ESD to print warrants and release electronic payment files which creates a segregation of duties. The district may also be able to implement *compensating controls* such as regular review by management of vendor files and payment history.

Review and analysis is a good practice for maintaining controls in accounts payable. If segregation of duties is not possible, then management review becomes even more important as a compensating control.

Management review of the following areas is recommended:

- ✓ Vendor payment totals and variance over three year periods.
- ✓ Vendor database for duplicate vendors.
- ✓ Purchase of merchandise not delivered to a district location.
- ✓ Review that documented procedures are being followed.
- ✓ Review of expenditure variance from budget/appropriations.
- ✓ Review and analyze variance in general ledger accounts pertaining to accounts payable (accounts payable liability, sales and use tax liability, etc.).
- ✓ Review by budget managers at schools and departments of their budget to actual interim financial reports.

Independent Contractor versus Employee

Independent contractors are paid through the district's accounts payable process. Employees are paid through payroll. It is important to correctly classify a worker and pay them correctly. For federal tax purposes, this is an important distinction. Worker classification affects how a worker pays their federal income tax, social security and Medicare taxes, and how they file their federal tax return. Other important factors are workers compensation coverage and retirement earnings. Relevant factors in determining whether a worker is an independent contractor or an employee *are behavioral control, financial control, and relationship of the parties*.

Behavior Control

These factors show whether the worker has a right to direct or control how the work is done. A worker is an *employee* if the district has the right to direct and control the worker. This would include telling the worker how, when and where to do the work, what tools or equipment to use, what assistants to hire, and where to purchase supplies and equipment. Also, if the district provides the worker with training this usually suggests the worker is an *employee*.

Financial Control

If the worker is not reimbursed for some or all of their business expenses, then they may be an *independent contractor***.** Also, if the worker can realize a profit or incur a loss, this suggests the worker is an *independent contractor*.

Relationship of the Parties

The ways the district and the worker perceive their relationship also helps determine their status as an independent contractor or employee. If the district pays the workers benefits such as insurance, pension, or paid leave, the worker is considered an *employee*. If the worker is not paid benefits, the worker may be either an employee or an independent contractor. A written contract between the district and the worker may provide additional insight into the relationship intended.

IRS Publication 1779 will help districts determine the status of a worker as either an independent contractor or an employee. The district may receive a determination from the IRS by completing IRS Form SS-8 and sending to:

Internal Revenue Service
SS-8 Determinations
P.O. Box 1231
Stop 4106 AUCSC
Austin, TX 78767

The district may also find the Department of Retirement System's Independent Contractor Status Questionnaire useful in determining if the individual is an employee or an independent contractor. This form is included at the end of this section. Districts may also access this form on the DRS website.

If the worker is determined to be acting as an *employee*, they may not be paid through accounts payable. The individual must be paid through payroll at a board approved rate of pay. This does not include employees who may have a licensed business that is substantially different from their job with the district. An example would be a teacher that owns and operates a moving service. The moving service, although owned by a district employee, may be set up as a vendor and paid through accounts payable.

If a worker is determined to be acting as an *independent contractor*, they are paid through accounts payable and issued a 1099-NEC for the amounts paid during the calendar year. See IRS1099 Reporting section for complete details on issuing 1099-NEC reports.

Further information on what determines an employee versus an independent contractor can be found on the following web sites:

- ✓ WAC 415-02-110 - Determination of Worker Status (DRS WAC)
- ✓ F101-063-000 Independent Contractor Guide (wa.gov)
- ✓ IRS - Topic 762 - Independent Contractor vs. Employee
- ✓ SSA Online - Who is an employer?
- ✓ Misclassification of Employees as Independent Contractors Under the Fair Labor Standards Act | U.S. Department of Labor (dol.gov)

Clear Form

INDEPENDENT CONTRACTOR STATUS QUESTIONNAIRE

Department of Retirement Systems
PO Box 48380 Olympia, WA 98504-8380 • www.drs.wa.gov
Toll Free: 1-800-547-6657 • Olympia Area: 360-664-7000 • TDD: 360-586-5450

DRS provides this questionnaire as a tool to assist employers in determining if an individual is an independent contractor or an employee. The employer retains the questionaire.

Section 1: Worker Data

Worker Name	ID Number	Date Evaluated

The burden of persuasion for claiming an individual as an independent contractor is on the individual or the employer making the claim. Refer to WAC 415-02-110 and the Internal Revenue Service for the rules governing independent contractor status.

No one factor determines independent contractor status. You will need to review the relationship between the worker and the employer, and to evaluate whether the employer has direction or control over the means and methods of performing the worker's services. The terms of the contract and the actual arrangement under which the services are performed are also part of determining whether a worker is an employee or an independent contractor.

DRS will apply these factors, including but not limited to the following:

Section 2: Right of Control Evaluation

For each question, circle the yes or no column.

	Key: EE = Indicates Employee IC = Indicates Independent Contactor	YES	NO
1	Is the worker required to comply with detailed work instructions or procedures for when, where and how the worker must perform services?	EE	IC
2	Does the employer provide free training for the worker, or have the right to train the worker?	EE	IC
3	Are the worker's services an integral part of the employer's business operations?	EE	IC
4	Can the worker subcontract part or all of the required labor or services to another party?	IC	EE
5	Does the employer hire, supervise and pay others to perform the same job as the worker?	EE	IC
6	Does the worker hire, supervise and pay others on the job under a contract to furnish labor and materials?	IC	EE
7	Does the worker perform continuing services for the employer?	EE	IC
8	Does the employer set the worker's hours, routine or schedule?	EE	IC
9	Is the worker required to devote his or her full time to the employer's business?	EE	IC
10	Does the employer require the worker to perform services on the employer's premises?	EE	IC
11	Does the employer require the worker to perform services in a set sequence?	EE	IC
12	Is the worker required to provide regular, oral or written reports to the employer?	EE	IC
13	Is the worker paid by the hour, week or month?	EE	IC
14	Does the employer reimburse the worker for job-related expenses?	EE	IC
15	Does the worker furnish tools and materials necessary for the services?	IC	EE

	Key: EE = Indicates Employee IC = Indicates Independent Contactor	YES	NO
16	Has the worker invested in the equipment or facilities used in performing services?	IC	EE
17	Does the worker have a right to realize a profit or have a significant risk of loss?	IC	EE
18	Does the worker perform the same type of services for several persons or firms?	IC	EE
19	Does the worker offer services to the general public on a regular basis?	IC	EE
20	Does the employer have the right to discharge the worker at will?	EE	IC
21	Does the worker have the right to quit without incurring liability?	EE	IC
22	Does the worker perform services only pursuant to written contracts?	IC	EE
23	Has the worker attained business registrations, professional occupational licenses or certificates required by law to perform contracted services?	IC	EE
24	Has the worker purchased worker's compensation insurance and paid taxes required for an independent business?	IC	EE
25	Does the worker maintain a separate set of books or records, reflecting all items of business income and expenses of an independent business?	IC	EE
26	Has the worker assumed financial responsibility for any defective workmanship or for services not provided?	IC	EE

Section 3: Your Conclusion and Comments

☐ YES ☐ NO	Is the worker an independent contractor? If yes, is the independent contractor:		
Retired from a WA state retirement system?		☐ YES ☐ NO	
☐ YES ☐ NO	Is the worker an employee? If yes, is the employee:		
Working in an eligible position?	☐ YES ☐ NO	Retired from a WA state retirement system?	☐ YES ☐ NO

Note: Report all employees who retired from a WA state retirement system to DRS. Report independent contractors if they retired under the 2008 early retirement factors and they are under age 65.

Comments:

Employer Representative Name and Title (Please print)

Employer Representative Signature | Date

Keep this questionnaire to assist in documenting independent contractor status.

DRS MS 344 (R 5/09) Page 2 of 2

IRS 1099 Reporting

The IRS requires that school districts report certain accounts payable vendor payments annually on IRS Form 1099-NEC and 1099-MISC. Districts are required to report payments over $600 for services performed by someone who is not an employee. This is primarily for services performed by businesses or individuals who are not incorporated. The reporting process serves to assure the IRS that these vendors are claiming these earnings for income tax purposes.

1099 reporting is on a *calendar year basis*. A copy of the 1099-NEC or 1099-MISC forms must be provided to the vendor by January 31 of the following year. File 1099-NEC with the IRS on or before February 1 using either paper or electronic filing procedures. File 1099-MISC with the IRS by March 1 if you file on paper or by March 31 if you file electronically.

New Vendors

The district should obtain from every new vendor a form W-9, 8832, or a substitute W-9 form. The information provided on this form is required for 1099 reporting. The completed W-9 will provide the district with the vendor's legal name, address, business structure (sole proprietor, corporation, etc.) and Tax Identification Number (TIN). From the business structure information, the district will be able to determine if the vendor is a 1099 vendor. This information should be entered into the district's vendor database and the vendor flagged as a 1099 vendor. There should only be one vendor number or vendor name in the district's database for any TIN number.

Districts should avoid making payments to vendors prior to receiving a completed W-9 or substitute W-9 form. If the district is not able to obtain the required W-9 information, the district must deduct *backup withholding tax* from the vendor payments.

Backup Withholding Tax

Backup withholding tax must be applied only if the district makes reportable payments to persons, businesses, or corporations who have not furnished a valid TIN. The withholding rate is 24%. Backup withholding applies to many payments reported on Form 1099-MISC and Form 1099-NEC. *The school district is liable for the tax, whether or not the tax has been withheld from the vendor's payment.*

- The district must report withholding to the vendor and to the IRS in Box 4 of Form 1099 NEC and Form 1099-MISC, annually, due 1/31/xx.
- Payment of backup withholding is paid by EFTPS to the IRS.

TIN Verifying

School districts may verify any TIN* by registering with the IRS's TIN Matching Program. Use of the TIN Matching program will reduce the number of TIN/Name mismatches. Register with IRS e-service. (* TIN = SSN or EIN

1099-NEC Nonemployee Compensation

Beginning in tax year 2020, use Form 1099-NEC to report nonemployee compensation including attorney fees.

Items to report:

- ✓ Payments of $600 or more for the calendar year.
- ✓ Paid in the course of school district business.
- ✓ For services or a combination of services and products (box 1).
- ✓ Payments to an attorney (box 1).
- ✓ Backup withholding (box 4).

Items not to report:

- ✓ Payments to employees such as fringe benefits or travel reimbursements *(note: if not paid as part of an accountable plan, travel reimbursements and auto expenses should be included in wages and reported on W-2).*
- ✓ Generally, payments to corporations.
  - Except payments to medical and health care providers.
  - Except payments to attorneys for legal services.
- ✓ Payments for merchandise, telephone, inventory, storage, freight, lodging, and similar items.
- ✓ Payments of rent to real estate paid to real estate agents or property managers.
- ✓ Payments made on a Purchasing Card. 1099 reporting is the responsibility of the Purchasing Card provider.

1099-NEC Reporting by Box Number

Box 1 Nonemployee Compensation

Nonemployee compensation of $600 or more is reported in box 1. This includes services performed for the district by an individual who is not an employee. This includes fees, commissions, prizes and awards, and other forms of compensation.

Professional Services are reported in box 1. Examples are accountant and financial consultants, speakers and trainers, management and employee relations consultants, contractors, architects, engineers, attorneys (including corporations), instructional specialists (health care specialists are box 6 of form 1099-MISC), DJ's for school dances, etc.

- Include payments for services.
- Include payments for parts and materials used to perform the service if supplying the parts or materials was incidental to providing the service. For example, the district hires a heating repair technician to repair an air conditioning unit. The invoice includes an amount for labor and another amount for parts needed for the repair.
- *Exclude* payment for reimbursable travel costs such mileage, meals, and lodging (must be documented).
- Include payments for taxable fringe benefits. Use the same criteria you would for an employee in determining if the expenses are taxable or not.

Attorney Fees are also included in box 1 for both individuals and corporations. Gross proceeds paid to an attorney are not reported here, but are reported on 1099-MISC box 10.

Box 4. Federal Income Tax Withheld

Enter backup withholding.

1099-NEC Illustrated Example

The completed Form 1099-NEC illustrates the following example. Z Builders is a contractor that subcontracts drywall work to Ronald Green, a sole proprietor who does business as Y Drywall. During the year, Z Builders pays Mr. Green $5,500. Z Builders must file Form 1099-NEC because they paid Mr. Green $600.00 or more in the course of their trade or business, and Mr. Green is not a corporation.

7171 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Z Builders 123 Maple Avenue Oaktown, AL 00000 555-555-1212		OMB No. 1545-0116 2020 Form **1099-NEC**	**Nonemployee Compensation**
		1 Nonemployee compensation $ 5500.00	**Copy A For Internal Revenue Service Center** **File with Form 1096.**
PAYER'S TIN 10-9999999	RECIPIENT'S TIN 123-00-6789	2	
RECIPIENT'S name Ronald Green dba/ Y Drywall		3	For Privacy Act and Paperwork Reduction Act Notice, see the **2020 General Instructions for Certain Information Returns.**
Street address (including apt. no.) 456 Flower Lane		4 Federal income tax withheld $	
City or town, state or province, country, and ZIP or foreign postal code Oaktown, AL 00000			
	FATCA filing requirement ☐		
Account number (see instructions)	2nd TIN not. ☐	5 State tax withheld $ $	6 State/Payer's state no.	7 State income $ $

Form **1099-NEC** Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

1099-MISC Miscellaneous Income

Beginning in tax year 2020, use Form 1099-NEC to report nonemployee compensation including attorney fees. Use 1099-MISC for all other 1099 reporting requirements.

Report each person in the course of school district business to whom the district paid the following during the calendar year:

- At least $10 in royalties (box 2)
- At least $600 in:
- Rents (box 1);
- Prizes and awards (box 3);
- Medical and health care payments (box 6);
- Payments to an attorney for gross proceeds. (box 10)
- Backup withholding (box 4)

Payments for which a Form 1099-MISC is not required include all of the following.

- Generally payments to corporations. (See reportable payments to corporations below.)
- Payments to limited liability company (LLC) that is treated as a C or S corporation.
- Payments of rent to real estate agents or property managers.
- Wages paid to employees (report on Form W-2)
- Payments made with the district's purchasing or credit card.

Reportable payments to corporations. The following payments made to corporations generally must be reported on Form 1099-MISC.

- Medical and health care payments reported in box 6.
- Gross proceeds paid to an attorney reported in box 10.

Payments to attorneys. The term "attorney" includes a law firm or other provider of legal services. Attorneys' fees of $600 or more paid in the course of the district's business are reportable in box 1 of Form 1099-NEC.

Gross proceeds paid to attorneys. Gross proceeds are not for the attorney's service fee. Gross proceeds are settlement fees paid to the attorney on behalf of the claimant. Gross proceeds are reported in box 10 of form 1099-MISC. Additionally, the district must report the settlement to the claimant on a separate 1099-MISC in box 3.

1099-MISC Reporting by Box Number

Payments need to be reported in the correct box on 1099-MISC form.

Box 1 Rents

The district must report rents over $600 in box 1. Include real estate rents such as office space, classroom space, event space, or teacher housing. Do not include rents paid to real estate agents or property managers. Also include rental of equipment such as vehicles, heavy equipment or snowplows. If the rental included machine and operator, prorate between box 1 and box 7.

Box 2 Royalties

The district must report gross royalty payment of $10 or more in box 2. An example would be payments for a royalty to produce a play, paid directly to the playwright.

Box 3 Other Income

Deceased Employee Wages

The district must report payments to the estate of a deceased employee in box 3 of the 1099-MISC form. This is in addition to the W-2 reporting requirements for deceased employee wages. Accounts Payable will need to work with their payroll department on reporting deceased employee wages.

Legal Settlements

The district must report legal settlements paid to claimants in box 3. For example, the district settles with the parents of a special education student for services required but not provided by the district. Payments made to the attorneys are reported under box 10. See box 10 below for further details.

Box 4 Federal Income Tax Withheld

If the payee is unable to furnish their TIN, payments are subject to backup withholding. Backup withholding is reported in box 4. See Backup Withholding below for further details.

Box 6 Medical and Healthcare Payments

School districts must report payments of $600 or more made in the course of district business to each physician, nurse, or supplier or provider of medical or health care services. This includes corporations. Medical and healthcare payments must also be reported if the district is self-insured for industrial insurance. In the case of self-insured industrial insurance, your third party administrator will typically report 1099 information on the district's behalf.

Medical payments and healthcare reporting requirements include:

- ✓ Report payments of $600 or more in box 6.
- ✓ Report payments for all individuals, partnerships, and corporations.
- ✓ Medical payments include doctor fees, drug testing, lab fees, physical therapy, etc.
- ✓ *Do not report payments to pharmacies, tax exempt hospitals, or governmental agencies.*

When payment is made to a corporation for medical and health care, list the corporation as the recipient on the 1099 rather than the individual providing the services.

Box 10 Gross Proceeds Paid to an Attorney

Gross proceeds are the payments made to an attorney as part of a legal settlement or court order. Gross proceeds may be issued in the names of the attorney and the client. Gross proceeds may include an amount for the attorney's services. If the district cannot determine the attorney fees, report all of gross proceeds in box 10. If the district can determine the amount of attorney fees included in the gross proceeds, report the fee in box 1 on form 1099-NEC and report nothing in box 10 on form 1099-MISC.

Here are some examples:

Box 10 example: The school district agrees to settle all matters involved with a property claim for $30,000 and pays the claimant's attorney for a release. The $30,000 is reported in box 10.

Box 10 and Box 3 example: The district agrees to settle all matters involved with a property claim for $30,000 and issues a warrant made out to both the claimant and the claimant's attorney for a release. The $30,000 is reported in box 10 on the attorney's 1099-MISC and $30,000 is reported in box 3 on the claimant's 1099-MISC.

1099-MISC Illustrated Example

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents $	OMB No. 1545-0115 2021 Form 1099-MISC	Miscellaneous Information
		2 Royalties $		
		3 Other income $	4 Federal income tax withheld $	Copy B For Recipient
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds $	6 Medical and health care payments $	
RECIPIENT'S name		7 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐	8 Substitute payments in lieu of dividends or interest $	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		9 Crop insurance proceeds $	10 Gross proceeds paid to an attorney $	
City or town, state or province, country, and ZIP or foreign postal code		11 Fish purchased for resale $	12 Section 409A deferrals $	
Account number (see instructions)	FATCA filing requirement ☐	13 Excess golden parachute payments $	14 Nonqualified deferred compensation $	
		15 State tax withheld $ $	16 State/Payer's state no.	17 State income $ $

Form **1099-MISC** (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Submitting Returns

Paper returns should be mailed to the Internal Revenue Service Center listed for your district's area on the Form 1096 instructions. Electronic filing is required if the district has 10 or more returns. File electronically through the Filing Information Returns Electronically System (FIRE System).

File 1099-NEC on or before February 1 using either paper or electronic filing procedures. File 1099-MISC by March 1 if you file on paper or March 31 is you file electronically.

Backup Withholding

School districts are required to do backup withholding if payments are made to persons, businesses or corporations who have not furnished a valid Tax Identification Number (TIN). The withholding rate is 24%. This 24% tax must be deducted from all vendor payments to ensure that IRS received the tax due on this income.

Backup withholding applies to payments reportable on Form 1099-NEC and Form 1099-MISC. Backup withholding begins when aggregate payments for the calendar year equal or exceed $600 or immediately if payee was subject to backup withholding the prior year, the IRS notified the district to begin backup withholding, or the payee provided an invalid TIN 2-of-3 year rule.

Amounts deducted from the vendor payments for backup withholding should be recorded as a liability on the district's books until they are remitted to the IRS. Record as a liability in account 630 Due to Governmental

Units and an expenditure code applicable to the original payment.

Report withholding to the payee and the IRS in box 4 of Form 1099-NEC or Form 1099-MISC whichever applies. Remit withholding amounts to the IRS annually, due January 31 of the following year. Use form 945 to report and pay withholding to the IRS.

Errors and Corrections

Common errors in reporting 1099 information are:

- ✓ Failure to obtain identifying information before making payment. Avoid this by requiring Form W-9 or substitute W-9.
- ✓ Failure to aggregate payments from all expense categories. Avoid this by editing your vendor database for duplicate vendors or duplicated TIN numbers.
- ✓ Assuming vendor is a corporation because:
    - The vendor name includes “Company or Associates.”
    - EIN is furnished.
    - The LLC designation was not interpreted correctly.

The district must file a corrected return to avoid penalties.

Penalties

An automatic failure occurs when the information return/payee statement contains errors in the name, TIN, and/or amount. Penalties may also be assessed for late filing of 1099 information. The IRS will notify the district if penalties will be assessed unless the district can establish a reasonable cause for the delayed filing. If you think you won’t make the deadline, file for an extension! Use form 8806, due January 31, for a 30-day extension

Records Retention

Retain IRS reporting records for three years. If backup withholding applies, keep for four years.

Unclaimed Property

Unclaimed Property is money or intangible property owed to an individual or business. Property is considered unclaimed after it is held for a period of time with no owner contact, and a good faith effort has been made to locate the owner. Abandoned property is turned over to the Department of Revenue Unclaimed Property Division (UCP) from many sources including banks, corporations, and government entities including school districts.

School districts are required to report unclaimed property to the Department of Revenue October 31 of each year based on their last activity. All property held by school districts becomes reportable one year after it becomes distributable (as opposed to two years prior to 2023).

Although reporting is mandatory, school districts have the option of remitting the funds associated with unclaimed property to the Department of Revenue Unclaimed Property Division (UCP) or retaining it at the school district.

The rightful owners can find any and all unclaimed property belonging to them by accessing the UCP's website and submitting a claim.

Accounts Payable transactions may result in unclaimed property primarily due to unredeemed checks and warrants for vendors, parent refunds, and employee travel and expense claims.

Tip: Districts paying employee travel and expense claims through direct deposit have reported a significant reduction in unredeemed warrants, replacement affidavits, and possible unclaimed property.

<u>Due Diligence</u>

Due diligence notification requirements changed in January 2023. For items over $75, written notices must be sent to the payees within 60-180 days of the annual due date. The letters only need to be sent to payees who have valid addresses. Email may be used if the owner has consented to email communication. The letter is intended to inform payees that there is money being held for them which may be turned over to the Washington State Department of Revenue's Unclaimed Property Division (UCP) due to inactivity.

Because school districts must have a completed Affidavit of Lost or Destroyed Warrant before reissuing a lost warrant, a district may wish to include the partially completed affidavit with the due diligence letter.

Things to include in your due diligence letters:

- ✓ Vendor/employee name
- ✓ Warrant number

- ✓ Warrant date
- ✓ Warrant amount
- ✓ Due date for affidavit return
- ✓ Date item will be turned over to Washington Department of Revenue
- ✓ A district contact name and number
- ✓ Include a copy of a partially completed affidavit

The district should keep records of all due diligence letters sent and any responses received. Keeping an electronic spreadsheet of unclaimed property transactions is an effective means of documentation.

Positive Response: If the district gets a response from the payee, the district should cancel and reissue the warrant. See Duplicate Warrant Section above for details. Update the unclaimed property spreadsheet noting the reissue.

No Response: If the district does not get a response, the warrant should be cancelled and the amount considered unclaimed property. See warrant cancellation process section for details. In addition to the warrant cancellation process, the following procedures are recommended:

- ✓ Enter the amount of the liability on a spreadsheet.
- ✓ Prepare a journal entry to move the amount due into a liability account.

If district practice is to remit unclaimed funds to the UCP when due, the recommended best practice is to record the unclaimed property as a liability on the district's financials. The journal entry would be as follows:

To cancel the original warrant:	Debit	Credit
241 Warrants Outstanding	$xxx.xx	
630* Due to other Governmental Units - Unclaimed Property Liability		$xxx.xx

Districts may want to set up a subsidiary liability ledger code for unclaimed property that crosswalks to the state general ledger 630 Due to Other Governmental Units. The amount recorded in the unclaimed property liability represents amounts to be remitted to the Department of Revenue Unclaimed Property Division.

Note that the original expenditure remains as recorded when the original invoice was processed.

If district practice is to retain unclaimed property, the journal entry to cancel the warrant should credit/reduce the original expenditure account. See further discussion on retaining unclaimed property below.

Reporting Requirements

Reports and remittance are due by October 31 of each year. The report must include all property that has gone unclaimed for the required dormancy period, as of the preceding July 1 through June 30. For example, items issued July 1, 2022 thru June 30, 2023 must be reported by October 31, 2024. Districts with nothing to report that have filed in the past should file a negative (zero) report.

Beginning with report year 2016, districts must file and pay electronically. Electronic reports can be submitted on the Washington State Department of Revenue website WA Unclaimed Property
.

Reporting forms can be found at WA Unclaimed Property

For question regarding reporting, call 360-534-1502 or email ucp@dor.wa.gov.

Remitting Unclaimed Property

Districts have the option of remitting the total amount of unclaimed property to the UCP or retaining it in the district (RCW 63.29.190).

Remitted to UCP - If the district chooses to remit the funds to the UCP, accounts payable will need to prepare the payment to the UCP based on the total reported.

- ✓ Submit payment electronically to the State of Washington Unclaimed Property.
- ✓ If keeping a spreadsheet, enter the payment on the spreadsheet.
- ✓ Charge the payment to the unclaimed liability account.
- ✓ Send claimant to UCP for a refund.

Retained by District – If the district chooses to retain the unclaimed property, DOR Unclaimed Property will direct payees to contact the district for payment. The district should:

- ✓ Keep a record of all unclaimed property indefinitely.
- ✓ Issue a warrant directly to the payee when claims are made.
- ✓ Record the payment in the unclaimed property records.
- ✓ Charge the payment to an expenditure account code.*
- ✓ Provide proof of payment to UCP.

* If the original expenditure account is a federal grant, the expenditure account should be changed to a local expenditure account such as program 97, activity 13.

Complete information on unclaimed property can be found on the DOR Unclaimed Property website
WA Unclaimed Property

The Accounting and Budgeting Connection

Expenditures

In accounts payable, the majority of disbursements are posted to expenditure account codes. *Expenditures* are charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year. Expenditures decrease the net financial position of the district.

Expenditures are reported in the General Ledger (G/L) in account 530. G/L 530 is a control account requiring subsidiary accounts to track further details about the expenditures. The Accounting Manual for Public School Districts in the State of Washington requires a series of subsidiary expenditure accounts. State required expenditure codes in the General Fund include a two digit program code, a two digit activity code, a four digit object code, and four digit location code (PP-AA-OBBB-LLLL). For example, basic education teaching supplies must be coded to 01-27-5610 including the four digit instructional location code.

A complete listing and description of state program, activity, and object codes are found in the Accounting Manual for Public School Districts in the State of Washington. It is important that all districts adhere to the required account code structure.

In addition to the state required account codes, each school district must develop an expanded chart of accounts to manage their district's budget. The school district expanded chart of accounts will typically include sub-program codes and responsibility codes. The district's account code structure is essential in managing expenditures against a budget.

Encumbrances

Another key factor in managing a district's budget is the *encumbrance* system. An encumbrance occurs when a purchase order is issued. The reason for encumbrances is to see what funds are already committed and not available.

Budgets

The work of *accounts payable* has a direct and important role in producing budget reports that help budget managers track their expenditures against their program budgets.

The following is an example of a budget report for Hollywood High School on March 31, xxxx. Hollywood High School issued a purchase order to Northwest Textbook for curriculum materials of $10,000. The $10,000 is *encumbered* and deducted from the budget balance. The principal knows she has only $40,000 left to spend in her curriculum budget.

	Hollywood High School	Budget	Expenditure	Encumbrance	Balance
01.23.5610	Principal Supplies	$50,000	25,000	5,000	20,000
01.27.5610	Teaching Supplies	50,000	20,000		30,000
01.33.5640	Teaching Curriculum	250,000	200,000	10,000	40,000
	Total	$350,000	$245,000	$15,000	$90,000

Continuing with the previous example, assume that on April 10, accounts payable receives an invoice from Northwest Textbook for $5,000. Accounts payable *matches* the invoice against a $10,000 purchase order charged to account 01.33.5640 and a receiving verification from the Hollywood High School office manager. After entering the invoice and posting, the school's budget reports appear as follows:

Account	Description	Budget	Expenditure	Encumbrance	Balance
01.23.5610	Principal Supplies	$50,000	25,000	5,000	20,000
01.27.5610	Teaching Supplies	50,000	20,000		30,000
01.33.5640	Teaching Curriculum	250,000	205,000	5,000	40,000
	Total	$350,000	$250,000	$10,000	$90,000

The resulting payment reduces the encumbrance to $5,000 in account 01.33.5640 and increases the expenditure by $5,000. In other words, $5,000 moves from the encumbrance column to the expenditure column. The budget balance remains at $40,000 because the purchase order had originally earmarked that amount as committed to a vendor order.

To further illustrate the effects of an encumbrance on a school's budget, let us assume that accounts payable received a second invoice for $6,000 from Northwest Textbook. Accounts payable *matches* the invoice against the $10,000 purchase order charged to account 01.33.5640 and a receiving verification from the Hollywood High School office manager. The accounts payable technician also notes there is only $5,000 left on the purchase order. Because the district's policy is to allow accounts payable to pay invoices over the encumbrance by 10%, accounts payable processes the invoice. The school's budget reports will appear as follows:

Account	Description	Budget	Expenditure	Encumbrance	Balance
01.23.5610	Principal Supplies	$50,000	25,000	5,000	20,000
01.27.5610	Teaching Supplies	50,000	20,000		30,000
01.33.5640	Teaching Curriculum	250,000	211,000		39,000
	Total	$350,000	$256,000	$5,000	$89,000
			+6,000	-5,000	-1,000

Paying an invoice that exceeds a site's encumbrance affects the budget balance. In this case, the budget balance is reduced by $1,000 expenditure over encumbrance.

If however, the final invoice had been received for $4,000, which was under the encumbrance balance remaining of $5,000, the accounts payable technicians would need to take two steps. Pay the $4,000 invoice and *finalize* the purchase order in order to release the $1,000 remaining encumbrance. In this scenario, the school's budget report will appear as follows:

Account	Description	Budget	Expenditure	Encumbrance	Balance
01.23.5610	Principal Supplies	$50,000	25,000	5,000	20,000
01.27.5610	Teaching Supplies	50,000	20,000		30,000
01.33.5640	Teaching Curriculum	250,000	209,000		41,000
	Total	$350,000	$249,000	$5,000	$91,000
			+4,000	-5,000	+1,000

Paying a final invoice for less than the encumbrance balance, adds money back into the school's budget balance.

As illustrated in the examples above, accounts payable's work plays an important role in assisting a budget manager with their fiscal responsibilities. Accounts payable technicians must understand the encumbrance systems and the effects on budget balance reports.

Accounts payable must also understand the district and state account code structure. Account codes are usually provided by the budget manager requisitioning the expenditure. However, there may be times when accounts payable technicians need to add or correct an account code.

Budget managers are responsible for:

- ✓ Providing expenditure account codes within their responsibility.
- ✓ Encumbering their purchase requisitions with reasonable cost estimates.
- ✓ Approving expenditures over the encumbered amount (or above the district approved tolerance percentage).
- ✓ Approving any direct expenditure to their budget accounts.
- ✓ Monitoring their expenditures against the district approved budget.

Accounts payable is responsible for:

- ✓ Verifying that expenditure account codes are correct per the district's chart of accounts and the Accounting Manual for Public School Districts in the State of Washington.
- ✓ Verifying that the account code provided by the budget manager is within their responsibility.
- ✓ Paying against purchased orders within the encumbered amounts or within the district's approved tolerance percentage.
- ✓ Paying to the correct account code on the purchase order.
- ✓ Closing or finalizing completed purchases orders to release encumbrance balances.

Accounts payable's responsibility over account coding may vary from district to district.

Inventories and Prepaid Items

This section does not apply to cash basis school districts.

Inventories

Although most accounts payable disbursements are for expenditures, there are two major exceptions:

- ✓ Inventories
- ✓ Prepaid Items

Inventories are large quantities of supplies, held in a central location, to be distributed to users as required. The most typical example is food service commodities. Inventories are also used for other material amounts of supplies held for later use. Examples might include bus fuel stored in underground storage tanks or general supplies held in a central warehouse.

Inventory is recorded in the following two asset accounts:

410 Inventory – Supplies and Materials
420 Inventory – Lunchrooms

If the school district is using a *Perpetual Inventory Method,* the accounts payable transactions will be recorded in the asset account. For example, the Food Services Department purchases food to be stored in their central warehouse. Accounts payable will post the invoice to 420 Inventory – Lunchroom. A 530 expenditure account is not used at the time of the accounts payable invoice payment. Expenditures are recorded later when the kitchen orders food from the district's central warehouse.

Prepaid Items

Prepaid items refer to good or services to be provided or consumed in a future fiscal year for which payment has been made in a prior fiscal year. Examples might be a two-year insurance policy or supplies purchased in the summer for the next school year. Prepaid items would generally include consumable type items and not fixed assets. A KCDA supply order but not a kitchen oven. The district should have a written procedure on what will be booked as a prepaid and apply it consistently.

Accounts payable is responsible for identifying and processing prepaid items correctly given their software system. An example of a prepaid item is a July invoice for supplies to be used in the schools in the coming school year. Assuming the Accounts Payable technician enters the payment correctly using the software's posting codes and dates, the system will post to 430 Prepaid Items in July, reverse 430 Prepaid Items on September 1, and post to 530 Expenditures on September 1. The following is an example of the resulting entries.

		Debit	Credit
7/15/xx	430 Prepaid Items (computer generated)	$5,000	
	601 Accounts Payable (computer generated)		$5,000
9/1/xx	530 Expenditures (*AP entry*)	$5,000	
	430 Prepaid items (computer generated)		$5,000
	To record an invoice received for supplies to be used in the next school year.		

The final result is the vendor is paid promptly in July and the expenditure budget is hit correctly in the next fiscal year. The district should never withhold payment from a vendor until the new school year begins.

Year End Expenditure Accruals

This section does not apply to cash basis school districts.

A school district's fiscal year begins on September 1 and runs through August 31. Districts must finalize and submit their financial data to the state each year by October 25 in the form of the F196 report. During the period after August 31 through the final submission of the F196, school district must accrue expenditures based on expenditure recognition rules. Expenditure recognition rules require that expenditures be recorded in the correct fiscal year.

Expenditure recognition: In school district accounting, expenditures are recognized in the period when goods and services have been received.

- ✓ Expenditures are charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year.
- ✓ Cash basis – expenditures are recognized when they are paid.
- ✓ Accrual Basis – expenditures are recognized based on a legal obligation to pay.

After August 31, the district will continue to receive invoices for expenditures that were *incurred* and *benefited* the prior fiscal year. For example, on September 15, the district received an invoice for $5,000 for services provided in August. The expenditure must be posted back to August 31. Other examples of expenditure accruals:

- ✓ Items received prior to or on 8/31.
- ✓ Services performed prior to or on 8/31.
- ✓ The percentage of completion on a construction contract through 8/31.
- ✓ Utility charges for services through 8/31.

Accounts payable is responsible for assessing which fiscal year to post the invoice against. Accounts payable must enter the invoice with the correct date and codes required by the software to post to the correct fiscal year. Provided the invoice has been entered correctly, the software system will post the following entries:

		Debit	Credit
8/31/xx	530 Expenditures (entered by AP)	$5,000	
	601 Accounts Payable (computer generated)		$5,000
	To record an invoice received on 9/15 for services performed in August and entered into an accounts payable batch for accrual.		

Expenditures are increased on 8/31 by a debit. Liability accounts, such as Accounts Payable, are increased with a credit.

Assuming a warrant is issued for the above invoice on 9/18, the following entry will be generated by the computer system:

		Debit	Credit
9/18/xx	601 Accounts Payable	$5,000	
	241 Warrants Outstanding		$5,000
	To record warrants issued on 9/18.		

<u>Accruing without an invoice</u>

Expenditure accruals must be done regardless of whether an invoice is received. A typical example would be a consultant who is providing services and has not prepared an invoice. These additional expenditures are found

by reviewing outstanding encumbrances and obtaining contract completion percentages from the project managers. When accruing without an invoice, a journal entry rather than an accounts payable entry should be made.

For example, a project manager reports that an estimated $250,000 of additional work has been completed on a remodel project and no invoice has been received. A journal entry must be completed to accrue the $250,000 estimate.

		Debit	Credit
8/31	530 Expenditures (increase)	$250,000	
	601 Accounts Payable (increase)		$250,000
	To record the expenditure accrual based on an estimate of completion.		
9/1	601 Accounts Payable (decrease)	$250,000	
	530 Expenditures (increase)		$250,000
	To reverse the expenditure accrual.		

The standard accounting practice is to reverse an expenditure accrual journal entry at the beginning of the new fiscal year. This makes it possible for accounts payable to process all invoices through the normal process without duplicating a previously accrued expenditure.

Reconciling General Ledger 601 Accounts Payable

At fiscal year end, the balance in general ledger account 601 Accounts Payable should reconcile to a list of unpaid invoices and expenditure accruals. The district may also use general ledger code 602 Contracts Payable – Current to record the accrued liabilities associated with contractual agreements and construction contracts. General ledger account 602 should also be reconciled to unpaid invoices and expenditure accruals at fiscal yearend.

Resources/References

Accounting Manual for School Districts, 2023-24: 2023-24 School District Accounting Manual (ospi.k12.wa.us) (account code structure, warrant certification, imprest and petty cash accounts, accounting and budgeting)

Bureau of the Financial Services, US Department of the Treasury: https://www.fiscal.treasury.gov/ (Prompt Pay)

Government Finance Officers Association: http://www.gfoa.org/purchasing-card-programs GFOA Purchasing Card Programs, Best Practice, February 2011. (Pcards)

IRS Office of Federal, State & Local Governments, Fringe Benefit Guide (Revised 2-2020) Publication 5137, (Rev. 10-2022) (irs.gov) (Travel)

Internal Revenue Service, Instructions for Forms 1099-MISC and 1099-NEC (01/2024) | Internal Revenue Service (irs.gov) (1099 Reporting)

Internal Revenue Service, Federal, State, Local Governments (FSLG): https://www.irs.gov/government-entities/federal-state-local-governments

Internal Revenue Service: IRS - Topic 762 - Independent Contractor vs. Employee (Employee vs. Contractor)

MRSC Local Government Success: www.mrsc.org (Public Works Contracts)

Social Security Administration: SSA Online - Who is an employer? (Employee vs. Contractor)

US General Services Administration: www.gsa.gov/portal/category/100120 (Meal and Lodging Per Diem Rates)

Washington State Archives, Office of the Secretary of State: http://www.sos.wa.gov/archives/ or email recordsmanagement@sos.wa.gov (Paperless Invoice Processing)

Washington State Department of Labor and Industries: F101-063-000 Independent Contractor Guide (wa.gov) (Employee vs. Contractor)

Washington State Department of Revenue: https://dor.wa.gov/find-taxes-rates/sales-and-use-tax-rates/local-sales-and-use-tax (Sales and Use Tax Lookup)

Washington State Department of Revenue: https://dor.wa.gov/doing-business/business-types/industry-guides/school-district (Sales and Use Tax School District Guide)

Washington State Department of Revenue: https://dor.wa.gov/file-pay-taxes (use tax payments)

Washington State Department of Revenue: WA Unclaimed Property

Washington State Department of Retirement Systems: https://www.drs.wa.gov/wp-content/uploads/2021/07/independentContractor.pdf (Independent Contractor Status Questionnaire)

WASBO Purchasing and Warehouse Handbook: www.wasbo.org (Purchasing)